



Infrastructure Investment Program Independent Strategic Review

Submission

July 2023

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The MAV is the statutory peak body for local government in Victoria. While this paper aims to broadly reflect the views of local government in Victoria, it does not purport to reflect the exact views of individual councils. This submission to the Independent Strategic Review of Federal Infrastructure Investment Program has been endorsed by the MAV Executive.

1 Introduction

The Municipal Association of Victoria (MAV) welcomes the opportunity to make a submission to the Independent Strategic Review of the Infrastructure Investment Program (IIP).

The MAV is the peak representative and advocacy body for Victoria's 79 councils. It was formed in 1879 and the *Municipal Association Act 1907* appointed the MAV the official voice of local government in Victoria.

Councils manage 87 per cent of Victoria's road network (in excess of 130,000 kms) which consumes more than 10 per cent of council budgets. Councils also own and manage supporting infrastructure such as bridges, culverts and drains, and community infrastructure including paths, sporting grounds, cultural and creative spaces. Federal funding is critical to this task, particularly in Victoria where local government revenue is constrained by the rate cap, limiting councils' capacity to manage the task on their own.

The cost of maintaining existing assets and delivering new infrastructure projects is escalating. This has been exacerbated by three years of La Niña weather systems, culminating in the October 2022 floods, which affected 63 of Victoria's 79 local government areas. The network is also being put under increasing pressure by changes to heavy vehicle mass and size limits. These factors, combined with the introduction of the rate cap seven years ago, have resulted in a severely degraded local roads network in Victoria.

While the MAV acknowledges the IIP review aims to refocus the infrastructure investment pipeline to nationally significant projects, it is essential that funding to support local government infrastructure is not cut in the trade-off.

Maintaining a safe and efficient local road network is an important factor in achieving national priorities including equitable access to health services, employment and education, and supporting small businesses and social connection. Local infrastructure contributes to national productivity by providing the 'first and last kilometre' for our freight network.

Councils therefore have a strong interest in the outcomes of this review and have been encouraged to make individual submissions. They have also informed this submission and the Australian Local Government Association (ALGA) submission by participating in a survey about the various Federal IIP sub-programs. Please see the ALGA submission for the full results of that survey.

2 Response to Review Objectives

The MAV appreciates the urgent need for this review. At a different scale, Victorian councils are facing similar challenges to the Federal Government. Councils are having to reprioritise capital expenditure and asset renewal to address these challenges.

An issue that is unique to Victorian and NSW councils is the rate cap – an inability to use own-source revenue to address the growing renewal gap and upgrade infrastructure to be more resilient to extreme weather events and a changing climate. The 2023-24 Victorian council rate rise has been

capped by the State Government at 3.5 per cent, despite the Essential Services Commission recommending 4 per cent and inflation being considerably higher.

2.1 Investment in maintenance and asset renewal

As [documented by Marion Terrill at the Grattan Institute](#), Australia has entered an era of public infrastructure megaprojects - projects that cost \$1 billion or more. It is the view of councils that this has been at the expense of investment in essential maintenance and smaller scale projects.

While some councils still have in-house capability to deliver infrastructure projects and civil works, the overheated construction industry has contributed to contractor and supply shortages and the notable lack of interest in local government tenders.

Councils would like to see a rebalancing of infrastructure investment to address the maintenance backlog, support local employment and hopefully bring down the cost of upgrading existing infrastructure.

There is a growing gap between asset depreciation and council spending on renewal. This gap presents a compounding risk. As assets fall into greater states of disrepair, they will become more expensive to renew, further stretching council resources. Recent MAV and FinPro research into the [financial sustainability of Victorian councils](#) indicates there is about a \$500m gap for Victorian councils that is widening.

An increase in funding that can be used for renewal, maintenance and locally-identified upgrade priorities, such as Roads to Recovery, would be welcomed. This would facilitate improved capability for councils to manage their assets efficiently and effectively.

Another crucial issue for councils is the capacity to assess roads, bridges and culvert infrastructure, particularly for identified strategic freight routes. The Strategic Local Government Asset Assessment Project, which supports the assessment of bridges and culverts, has the potential to inform permit decisions, capital works programs and planning for maintenance and renewal. There is an opportunity for the Federal Government to look at sequencing funding to better support councils to address issues raised through assessments and increase the scale of support.

2.2 MAV Infrastructure delivery challenges survey

In September 2022, the MAV [surveyed Victorian councils](#) to gain a better understanding of the challenges the sector is facing in infrastructure and capital works program delivery. A representative sample of close to half of Victoria's councils responded.

The challenges and costs councils face in delivering key infrastructure are increasing. This can mean delays or reductions in scope of infrastructure programs, as well as needing to cut other services to fund the increased costs. It can also lead to cost-of-living pressures on households.

Key findings:

- The cost of delivering infrastructure, and construction in particular, increased rapidly over 2021-22.

- Over 80 per cent of councils are experiencing weaker response to tenders from industry
- Services, materials, and skill shortages are leading challenges
- Infrastructure pipelines are exceeding the capacity of industry to deliver
- Local government's asset to revenue ratio is substantially different to other levels of government. Councils have large assets to manage, yet significant constraints on revenue (including imposed limits on own-sourced revenue such as the rate-cap and statutory fees).
- Flexibility around how grant funding can be used and increases to untied grants are seen by councils as the most promising response to these challenges.

These findings were largely reflected in the responses to ALGA's survey of Federal IIP sub-programs undertaken to support this strategic review.

2.3 Specific sub-program feedback

Council feedback demonstrates genuine appreciation for federal infrastructure funding. Councils do, however, have a strong preference for non-competitive grants that support locally and regionally identified priorities – including asset maintenance – over restrictive competitive grants. Councils see opportunities for more efficient grant application and acquittal processes to better match their resources, particularly the limited resources of smaller rural councils.

Roads to Recovery is an example of a valuable and efficient program for local government that is used to support maintenance and renewal. Positive feedback from the sector includes it delivers certainty around the allocation, the administrators take a flexible approach, and it provides an ability to align expenditure to strategic priorities and asset management plans.

The conclusion of the Local Roads and Community Infrastructure Program (LRCIP) was particularly disappointing for councils. The LRCIP was used to support the backlog of community infrastructure renewal and address community priorities. It has helped councils build and upgrade pools, libraries, sporting facilities, community centres in addition to roads, paths and other essential infrastructure.

In relation to targeted programs, councils identify opportunities to streamline applications and steps that could be taken to give all councils the best opportunity to participate in the programs. These include introducing a central application portal and reducing the up-front scoping and engagement requirements and tight delivery timeframes for some of the programs.

While it may not be in scope for this review, reform to the Disaster Recovery Funding Arrangements (DRFA) is a high priority for Victorian councils. The current funding arrangements for recovery from natural disasters do not encourage improvements in the resilience of damaged infrastructure. Under the current model in Victoria, should councils wish to improve infrastructure by designing and developing more modern or disaster-resilient solutions, these are not funded. This is not the case in other states, such as Queensland, which has seen betterment become a core component of the DRFA and resulting in significant savings in subsequent disasters. The MAV would like to see the Federal Government compelling all states and territories to support betterment in disaster repair programs and considering it as a key principle in other Federal infrastructure programs.

3 Recommendations

1. That the Federal Government continue to fund Infrastructure Investment Program sub-programs targeting local government, such as Roads to Recovery and the Local Roads and Community Infrastructure Program, which support the delivery of locally identified infrastructure priorities including maintenance and renewal.
2. That the Federal Government continues to fund local government infrastructure projects to help achieve national policy priorities including road safety, equitable access to jobs, homes and services, productivity and heavy vehicle reform.
3. That the Review team considers the impact of major and megaprojects on the capacity of councils to maintain and upgrade existing assets to a safe and resilient standard.
4. That the Federal Government review subprogram criteria and grant notice periods to provide:
 - greater opportunity for local budget consideration and strategic planning
 - more consistent and streamlined application processes
 - greater flexibility in delivery timeframes
 - opportunities for community engagement and scoping costs to be included.

This includes consideration of more non-competitive grant programs that do not require co-funding, and fewer grants requiring shovel-ready projects complying with pre-determined criteria.

5. That the Federal Government increase the quantum of funding in these programs to reflect significant increases in infrastructure construction costs over the past three years, and the need to upgrade roads to contribute to national road safety policy objectives and increase climate resilience.
6. That building to a more resilient standard become a key principle in the DRFA and any other Federal infrastructure repair programs.

4 Conclusion

The MAV is aware that the advice in this submission may be interpreted as somewhat contradictory.

On one hand, we are outlining the financial challenges of councils – and the challenges they’re facing delivering infrastructures on time and in budget; while on the other hand we are asking for more funding. The key point here is that we are recommending the review considers the impact larger scale projects are having on the ability of councils to deliver smaller scale projects, as well as the efficiencies and direct community and economic benefit associated with local projects. Improved major project selection and sequencing, with fewer projects being simultaneously delivered by the Commonwealth and State, will also benefit local government.

Similarly, on one hand we are asking for more untied funding to address local priorities, but at the same time we are arguing investment in these types of programs will support national policy objectives. In this case, both sets of priorities can be achieved. Councils have similar priorities in terms of equity, safety, productivity and improved climate resilience. With a more flexible and collaborative approach to program design and administration, we can see improved outcomes for the community and progress towards national goals.