Economic Issues

No. 38

Localism: Learning from Federal Nation Building (Economic Stimulus) Projects

Authors:

Assoc Professor

Executive Director

Steve WheIssues

Recent Issues Papers

37. -Thinking Social Policy: Place-Shaped As Well As People-, by Cliff Walsh and
36. Studies: 30 Year Anniversary by Gary Banks AO and Gary Sturgess AM, April 2013.
35. Trevithick, April 2013.
34. egions and Communities to Cope with Structural Change: by Cliff Walsh and August 2011.
33.
32. Neal, May 2011.
31. and Mark Trevithick, February 2011.
30. Trevithick, January 2011.
29. January 2011.
28. -Thinking the Approach to Regional Development in South Australia il and Cliff Walsh, December 2010.
27. Identifying the Main Economic Issues Facing the South Australian
26. - ons, April 2009.
25.
24.
23.
22.
21. Productivity Growth in the 21st September 2007.
20. Building a Local Defence Industry: Workforce Requirements 2006-2007.
19. Continuing to Dither While the Empty
18.

1. Background

The specific expertise of local government in the regulation of building, their knowledge of their local environments and regional needs, and the range of infrastructure they currently deliver, raises the question of whether there would have been benefits from directing a greater share of stimulus funding through local governments.

The Local Government Association of South Australia (LGA) through the Local Government Research and Development Scheme funded the South Australian Centre for Economic Studies (SACES) to undertake a

The purpose of the project was to:

(economic

In responding to th
potential) on the Australian economy the Australian Government adopted a range of stimulus measures including direct grants and funding of infrastructure.

Direct funding of infrastructure was largely made through state and territory governments, with almost all of the remainder representing direct re-imbursements of spending by businesses and households. Little of the stimulus funding was channelled through local governments.

occurred with some of the stimulus programs launched in response to the recession in 1991).

It is also important for the stimulus to have effect before job losses have been widespread. Increases in unemployment, particularly increases in long term unemployment, can have significant consequences for the individuals concerned, as well as reducing the productive capacity of the economy in both the short and medium term.

Whilst these measures, together with the strong initial state of the Australian finan

Figure 2.1: Planned timing of stimulus spending

Source: Gruen (2009, p.3).

how worthwhile the outcomes of the stimulus programs were across the various programs. Rather, the aim is to draw out lessons from selected programs that are relevant to the role of local governments in delivering services for other levels of government.

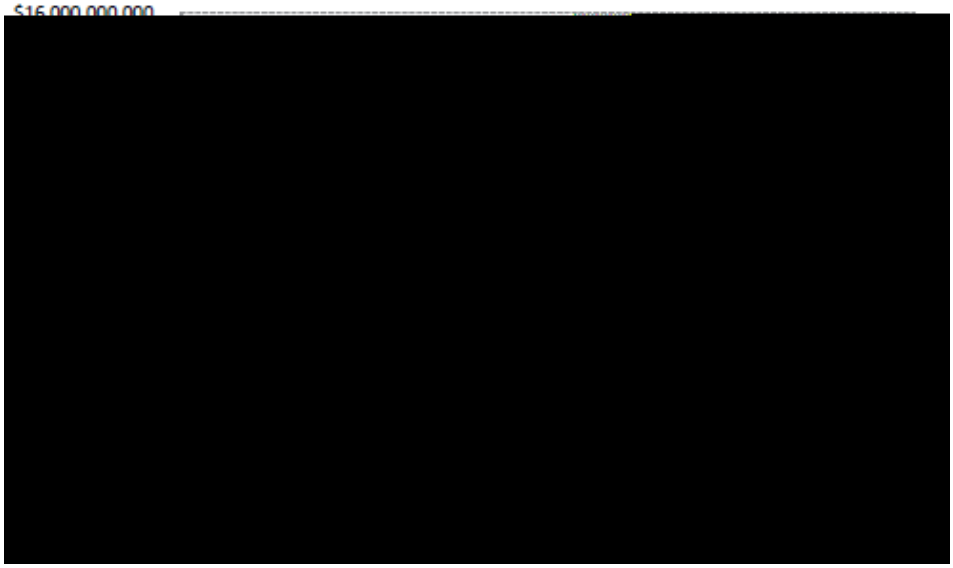
3.1 Building the Education Revolution

DEEWR was experienced in management of programs to improve school infrastructure, able to quickly develop guidelines, focus on primary school sector;

non-government school sector;

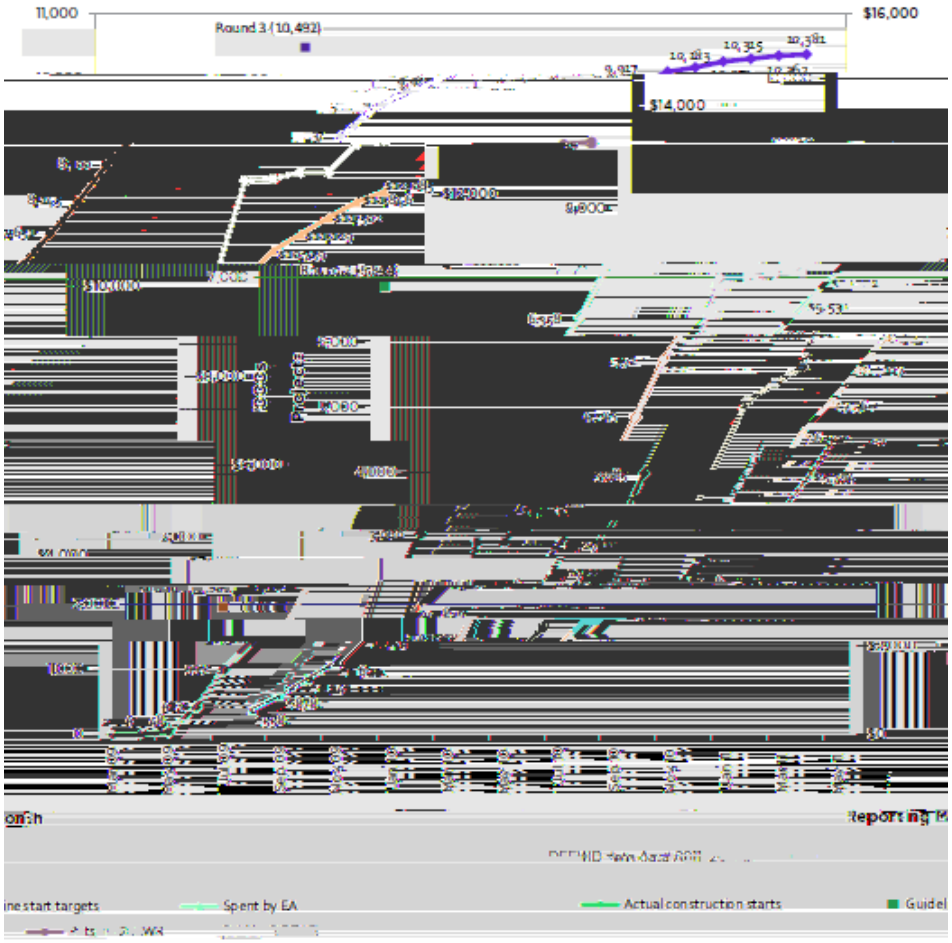
highly focussed program iconic buildings in primary schools;

Figure 3.2: Cumulative planned and actual expenditures on BER P21 Projects as at January 2010 ram data



Source: ANAO 2010a, p. 157.

Figure 3.3: Project commencements and expenditures on BER P21 Projects as at April 2011, BER Implementation Taskforce analysis of DEEWR data



Source: Orgill et al. 2011 p. 15.

As at April 2011 (the most recent available data) 92 per cent of BER P21 projects had completed construction and 98 per cent of funds had been committed. Victoria and the Northern Territory had the worst performance in terms of spending allocated funds with 81.5 per cent of funding spent as at April 2011, with the ACT, by contrast, spending 97.6 per cent of its allocation by that point.

Table 3.1: Committed projects and expenditures by jurisdiction, BER Implementation Taskforce analysis of DEEWR data

	Committed		Spent	
	$ million	Per cent of total	$ million	Per cent of total
Government:				
New South Wales	2,781			

Figure 3.4: Regionally adjusted average costs of BER P21 projects by block grant authority, BER Implementation Taskforce review of DEEWR data, $ per m^2

Source: Orgill et al. 2011, pp. 42 & 47

The BER Implementation Taskforce concluded that Catholic and Independent schools across the country, and government education departments in Queensland, Western Australia, South Australia, Tasmania and the Australian Capital Territory achieved high quality outcomes from the BER P21 program, and delivered value for money. Western Australia in particular was highlighted as achieving the best quality of the large states at the lowest average cost (total regionally adjusted project costs of $\$1,980/m^2$).

The New South Wales and Victorian Government managed projects were notable for combining the highest average cost, with the greatest number of complaints and quality issues. In the case of NSW this was at least partially offset by the very fast delivery of BER projects, in line with the original schedules and therefore contributing to the stimulus aspects of the program. However, in Victoria as at April 2011 44 per cent of projects were still under construction, this highest proportion in the country (Orgill et al. pp.).

The BER Implementation Taskforce identified the significant reduction

particularly in NSW and Victoria, as one of the factors reducing the effectiveness of the program. In particular they highlighted the fall in the number of architects, surveyors and civil engineers employed within state governments.

> costs ($3,448/m2) [compared to a national average of $\$2,618/m^2$] reflects the relatively high fees paid to managing contractors (20 to 24 per cent) which itself is a product of the lack of NSW public works capacity available and leveraged by the education department for BER. This progressive diminution of public works capacity evident in NSW and

Figure 3.5: Budgeted and actual cumulative expenditures on the Social Housing Initiative, as at September 2012

Source: Australian Treasury.

3.3 Home Insulation Program

program terminated due to compliance and safety concerns arising from, in part, explosion in the number of registered firms raising questions about accreditation and safety standards;

issues of a largely unregulated industry and an inherently risky activity prior to the scheme;

would have benefitted from more local (with industry involvement) monitoring, supervision and quality control;

a voucher funding model enabled consumer services to activate the local stimulus (installation) activity. Potentially a block grant on a per capita basis could be advanced to local government to pay the consumer voucher with monitoring/supervision purchased by council as well. Role of council to be administrator of block grant, quality assurance and payment and reporting authority.

The Home insulation Program was announced as part of the broader

It is estimated that the size of the industry increased from around 200 firms before the scheme was launched to 10,834 registered firms at its peak, with annual retrofitted installation of ceiling insulation rose from 50-75,000 annually to a peak of 178,000 per month in November 2009 (Hawke 2009, p. 26). The HIP is estimated to have created 6,000 to 10,000 jobs.

The program was terminated early in February 2010 due to on-going safety and compliance concerns. Whilst there were of the order of 4,000 potential cases of fraud detected, this was small in the context of the

of installations appeared to be widespread, with an audit of almost 19,000 homes finding that 29 per cent of installations inspected had quality control issues ranging from minor issues to serious safety concerns. There were also four workplace fatalities that have been linked to installations undertaken under the HIP.

Following the early closure of the program, the government introduced a program of quality assurance, and remediation for those homes affected by poor installation. It was expected that the quality assurance inspections, and subsequent rectification work, would absorb the remainder of the budget allocated for the HIP.

The issues with the installation process appear to largely arise from the nature of the industry which in all jurisdictions other than South Australia was unregulated and the large scale of program relative to the pre-existing industry.

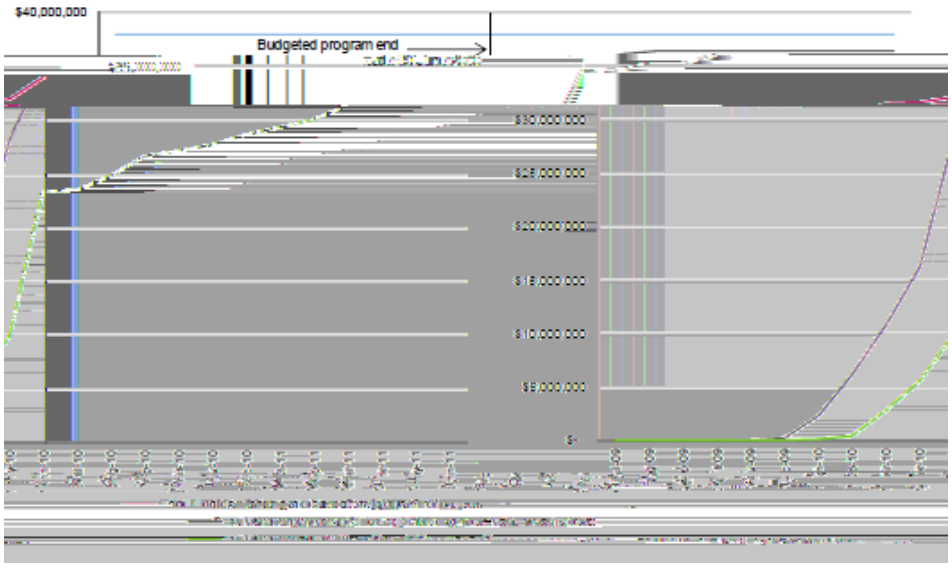
In particular, it should be noted that the safety failings of the Home Insulation Program were common to the industry prior to the program being announced. As the Hawke review notes, working in ceiling cavities is inherently risky, both for the installer and for the building structure through risk of fires. The Hawke Review notes that (whilst the available data is limited) it appears that prior to the HIP there were roughly 80 house fires annually associated with retrofitting ceiling insulation, and 100 fires potentially linked to installations under the HIP. -HIP installation rates this suggests that the fire risk actually fell under the HIP from 1.1 to 1.6 per 1,000 installations to 0.08 per 1,000 installations. As such it appears to have been more a case of selecting an inappropriate industry through which to distribute funds (or at least inappropriate without significant additional regulation), rather than the stimulus program making the industry less safe than the *status quo ante*.

This seems to suggest that the broad funding model effectively offering consumers vouchers which they could use to purchase small scale services from the private sector, with the installers paid directly by the Government is an excellent way of providing stimulus quickly. However, the significantly smaller degree of monitoring/supervision implicit in this type of funding model suggests that it should only be used

be made by the end of September 2009, all Round 2 expenditures by the end of December 2010, and all Round 3 expenditures by December 2011

It was not until August 2010 that expenditures under the program had reached $250 million (Figures 3.6 and 3.8), eleven months behind

Figure 3.10: Forecast and actual project payments on Bike Paths Component projects, ANAO analysis of program data



Source: ANAO 2012, p. 141.

4. Local Government Finances

In 2011/12 Australian local governments reported revenues of $36.9 billion, and a primary surplus of $6.3 billion. Local governments raise

council rates and charges on property;

user fees and charges;

interest;

fines and other penalties;

sales of goods and services; and

developer charges and contributions. (Productivity Commission, 2008).

The remaining revenue source available to local governments is grants and subsidies distributed by the Commonwealth and State Governments.

Grants or subsidies used for capital purposes are not included in main

ed. In 2005/06, these accounted for about 55 per cent of total grants and subsidies received by Australian local governments (Productivity Commission (2008). For this reason, whilst our high level analysis of revenue and expenditure will use the preferre
subsequent discussion of grant receipts will use the cash flow data.

The distribution of revenue sources for local government varies significantly between the states, largely due to differences in the roles filled by local governments. In some parts of some jurisdictions (Tasmania, Queensland and New South Wales) local governments are

responsible for water and sewerage services, significantly boosting the

Table 4.2: 2011/12 Local and State Government Budgets - Revenue Components Cashflow Basis

Figure 5.1: Public Administration Employment by States

The key gaps for local government seem to be in area of policy
Intelligence & Policy

seem unreasonable to suggest that this is likely to have played a role in the difficulty local governments had in preparing compliant project bids for contestable funding rounds, and in identifying suitable additional

of the response to the GFC (and in the Roads to Recovery program). This is perhaps another reason why it might be well advised for councils

how to scale up an existing project) that enhance local infrastructure, and projects that have a relatively high labour content, should the need for local economic stimulus arise at any time.

A key strength for local government is the existing endowment of key technical skill occupations that would justify confidence in planning and managing the delivery of infrastructure stimulus projects.

6. Future Prospects

6.1 Lessons from Stimulus Programs

Planned timing of expenditure needs to be based on past experience

The most important lesson to emerge from the use of infrastructure spending within stimulus programs was that the planned timing of expenditures needs to reflect actual experience with similar projects rather than assumptions made by policy makers. Infrastructure projects can face significant lag times in planning, designing and contracting. In all cases where infrastructure projects used as stimulus in response to the GFC the timelines identified for the stimulus were more optimistic than could actually be delivered, in many cases significantly so.

In part, this was because the trajectory of spending on individual projects

-

and, with project start dates clustered due to the constrained timeframe, the

Figure 6.1:

Some of the problems with the projects delivered through Local Governments were common to the broader set of stimulus projects, e.g. selection of inappropriate projects arising from the lack of capacity/expertise in Australian Government Departments to manage the selection process effectively.

6.2 The Way Forward

What role then do these emerging lessons suggest for local government in the delivery of future stimulus packages; whether in response to a general economic downturn, or in response to a negative regional shock?

infrastructure projects as part of the response to the GFC, with total funding of the order of $1 billion compared to $26 billion delivered through the states and territories. However, local governments bring some important strengths to future stimulus programs.

Their annual infrastructure spending is roughly two-thirds that of state governments ($10.5 billion in expenditure in 2011/12 compared to $23 billion by state and territory governments), giving them in many cases a substantial list of projects that need to be undertaken. They also have substantial existing project management and delivery capabilities, with aggregate employment in most relevant occupations comparable to, or greater than, state and territory governments (the notable exceptions being policy related occupations). The large stock of existing (and in many cases ageing) assets also means that is a great deal of maintenance that could be accelerated.

There are also potentially significant barriers to local governments taking a greater role in infrastructure delivery.

The scale of funding provided needs to be manageable by the receiving organisation, and local governments, with their s2(thi>Tm[(lould be a)6(c)-5(c)4(e)4(l

It is also the case that preparing applications for funding is a specialised skill and in most years there is no or only limited reason for local governments to have these capabilities. This means that when a funding round is announced many local governments do not have the capabilities in house to prepare applications for contested funding.

This appears to be part of a broader skills gap around policy development and delivery staff, where the share of local government employees in these occupations. This capability gap could be seen in the response to the Council Allocation component of the Regional and Local Community Infrastructure Program, where many councils had difficulties in identifying suitable projects that would have been additional activities for that year

How then should local governments be engaged in future stimulus programs? There seem to be three necessary components to be considered in future program design.

Stimulus funding should, to the extent possible, be delivered by scaling up existing programs, where the criteria are already known, the stakeholder relationships established, and payment and monitoring mechanisms developed. This would suggest that there is a need to maintaining one or more ongoing infrastructure funding programs for local government, with the funding scaled up as required.

We note that the Australian Government appears to be adopting an approach along these lines with the continuation of the Regional and Local Community Infrastructure Program beyond the end of the Nation Building and Jobs Package

It is also important to target funding to local authorities (and indeed more generally) based on some pre-established metric such as population or local unemployment rates, rather than through competitive grant applications. This is even more important with one-off funding rounds such as stimulus expenditure during a recession where competitive funding rounds lead to unnecessary administrative expenditure (and time) from the body providing the funding as well as the potential recipients.

Finally we would also suggest that there would be real merit in linking any ongoing funding stream to a small additional pool of funding to support local governments in developing relevant policy capabilities, focussed on developing the capabilities to develop and maintain larger scale forward workplans, and manage the rapid expansion of infrastructure spending when required.

End Notes

[1] E.g. as in continuation of the Regional and Local Community Infrastructure Program.

[2] E.g. funding the construction of offshore oil or gas rigs would be effective in increasing the long term productive capacity of the economy, but would be very ineffective in stimulating the domestic economy as almost all of the expenditure is with the (overseas) manufacturer of the rig.

[3] The discussion of Commonwealth Government policy responses draws on Treasury 2009, Kennedy 2009, and McDonald and Morling 2012a.

[4] Is not the equivalent of employment in the public sector, which would include public health and teaching workforce, other specialist occupations.