



Submission to the

Productivity Commission

Increasing Australia's future prosperity

Discussion Paper

Local Government Association of Queensland

January 2017

Contents

1.	Executive summary and Recommended themes.....	2
1.1.	Recommended themes.....	2
2.	Inquiry terms of reference and scope.....	3
3.	The Local Government Association of Queensland	3
4.	The significance of the local government sector to economic activity and productivity	3
5.	Some examples of Queensland local government initiatives to achieve productivity improvements.....	4
6.	Suggested themes and comments on the discussion paper.....	5
6.1.	Regulation design	6
6.2.	Public sector coordination, collaboration and partnerships	6
6.3.	Public sector capability building	6
6.4.	Pricing and revenue reform	6
6.5.	Fiscal equalisation and funding reforms.....	7
6.6.	New digital economies	7
6.7.	Strategic planning for cities and regions	8
6.8.	Supporting investment in human capital	8
6.9.	Innovation policy	9
6.10.	Open data sharing.....	9
Attachments:	Digital Productivity Report 2015 (LGAQ)	
	<i>Remotely Piloted Aircraft – the essential tool to enhance Local Government service capabilities</i> May 2016 (LGAQ)	
References:	LGAQ submission to the 2014 Public Infrastructure Inquiry	
	LGAQ submission to the 2013 Regulator engagement with small business Inquiry	
	LGAQ submission to the 2012 Performance benchmarking of Australian business regulation: The role of local government Inquiry	

1. Executive summary and Recommended themes

Reform needs the participation of all levels of government, as well as collaboration across sectors. There remain opportunities to improve policy settings and institutional working arrangements between levels of government, and between the public and private sectors, that would deliver efficiencies and support further productivity improvements throughout the economy.

An understanding of the role of local government in driving economic activity and productivity is vital to the generation of new ideas for policy and regulation reform in Australia.

This submission by the LGAQ, the peak body for local government in Queensland, focuses on the critical role councils play in managing and delivering public and economic infrastructure to Australian communities. Individually and at a regional level, Queensland's 77 councils seek to lift their productivity by pursuing initiatives to improve their efficiency and capability across a range of areas.

Queensland councils partner with each other and State Government agencies to deliver more efficiency in areas like water and sewage services and the state's roads and transport network. This submission outlines key recommended themes in areas like public sector collaboration, pricing and revenue reform and innovation to support more productive economies.

1.1. Recommended themes

Regulation design	<i>Cutting red tape and more efficient and flexible regulation to encourage the take up of new technology.</i>
Public sector coordination, collaboration and partnerships	<i>Better coordination, collaboration and partnership across all levels of government.</i>
Public sector capability building	<i>Support for improvement in local government management to boost productivity.</i>
Pricing and revenue reform	<i>Better price information on public infrastructure and CSO payments - including through heavy vehicle road reform - to encourage informed decisions.</i>
Fiscal equalisation and funding reforms	<i>More reliable, long-term funding of local government to support strategic asset planning and management.</i>
New digital economies	<i>Promote new technologies that help deliver efficiency.</i>
Strategic planning for cities and regions	<i>Policies that embrace changes in areas such as construction technology, development models, emissions and environmental standards, energy efficiency, land use and transport infrastructure.</i>
Supporting investment in human capital	<i>Identifying skills needs for emerging industries and improving participation in new skills development, study and employment.</i>
Innovation policy	<i>Support technology diffusion between public and private sectors.</i>
Open data	<i>Leverage data to inform economic decisions that deliver productivity benefits.</i>

2. Inquiry terms of reference and scope

The Commission is to review Australia's productivity performance and, in the light of its findings, make recommendations to assist governments to make productivity enhancing reforms. Without limiting related matters on which the Commission may report, its report to the government should:

1. analyse Australia's productivity performance in both market and non-market sectors, including an assessment of the settings for productive investment in human and physical capital and how they can be improved to lift productivity;
2. examine the factors that may have affected productivity growth, including an assessment of the impact of major policy changes, if relevant;
3. prioritise potential policy changes to improve Australian economic performance and the wellbeing of Australians by supporting greater productivity growth.

The LGAQ notes the Inquiry will also have regard to other current or recent reviews commissioned by Australian governments relating to Australia's productivity performance.

3. 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 established solely to serve councils and their needs.

The LGAQ has been advising, supporting and representing local councils since 1896, allowing them to improve their operations and strengthen relationships with their communities.

The LGAQ does this by connecting councils to people and places; 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.

4. The significance of the local government sector to economic activity and productivity

The provision, management and maintenance of public infrastructure provides a key element of the framework that supports economic activity and productivity. In addition, local government is sometimes a regulator of business activity, including direct and indirect regulatory responsibilities that have been delegated by another level of government.

The infrastructure, services and regulatory guidance provided by the local government sector facilitates the operation of local and regional economies, and the communities that are sustained by this economic activity. Regions, in turn, support State, Territory and national economies.

In Australia, the local government sector is a key provider and manager of economic infrastructure, including community facilities, roads and bridges, and (particularly in Queensland) water supply and treatment. The LGAQ's submission to the Commission's 2014 *Public Infrastructure Inquiry* provides a more complete discussion of the contributions made by local government.

On regulation, the LGAQ's submissions to the Commission's 2013 *Regulator engagement with small business Inquiry* and the 2012 *Performance benchmarking of Australian business regulation: The role of local government* provide detailed commentary on the role of local government as a regulator.

The Australian Federation's fiscal arrangements mean that Federal, State and Territory governments together collect approximately 97% of all public revenue (ABS 5512), and fiscal redistribution is an inevitable consequence of this pattern of revenue collection.

Local governments are sometimes criticised for seeking funding 'hand-outs' and not coming up with own-source funding solutions. This 'silo' thinking about the public revenue collected by each level of government does little to foster an approach that would see all levels of government more effectively work together on the challenges of public infrastructure and service delivery.

Collaboration across all levels of government will become increasingly important to support economic infrastructure. Public revenue shares contrast markedly with the (non-financial) public asset responsibilities of the respective levels of government.

For example, while the Commonwealth general government sector (which excludes public financial and non-financial corporatised entities) manages \$126 billion of non-financial assets (2014-15), across Australia the local government sector manages \$385 billion of non-financial assets (ABS 5512). Queensland local governments manage \$94 billion or 24 per cent of total non-financial assets for the local government sector. An additional \$8.7 billion is managed by two regional water entities, Queensland Urban Utilities and Unitywater, which brings Queensland councils' total infrastructure responsibilities to over \$100 billion (ABS 5512; QUU and Unitywater 2014-15 Annual Reports).

The redistribution of the nation's public revenues, including long-established fiscal equalisation measures, can be subject to variability over the longer term. For example, the Financial Assistance Grants indexation 'freeze' resulted in \$925 million being lost to the local government sector across Australia and created a step-reduction in the funding received through that programme.

This type of variability does not support the local government sector in its pursuit of more efficient operations and productivity improvements. As a consequence, the necessity to pursue productivity gains has long been central to the lexicon of local government management and sustainability.

5. Some examples of Queensland local government initiatives to achieve productivity improvements

The identification and pursuit of reforms 'to improve the wellbeing of Australians by supporting greater productivity growth' will require work at each level of government, and collaboration across levels of government.

At the local government level, in Queensland the LGAQ and its 77 member councils have pursued initiatives to improve the capabilities and capacities, both as individual councils and as regional groups. Some examples are provided in this section.

The Queensland Water Regional Alliance Program (QWRAP) is an industry-led initiative, now entering its fifth year, created to respond to calls for reform of water and sewerage services in regional Queensland. Within four years, the program has encompassed 30 councils representing 65 per cent of Queensland's regional population and 55 per cent of its land area.

The Association has also partnered with Queensland State Government agencies to establish regional approaches to planning and operations that have created both scale and scope benefits, including more efficient delivery solutions. For example, the Roads and Transport Alliance is a cooperative governance arrangement between the Department of Transport and Main Roads (TMR), the Local Government Association of Queensland (LGAQ) and Queensland councils.

Formed in 2002, the Alliance was established to address shared road and transport challenges across Queensland. Its objectives include to maximise the economic, social and environmental benefits of joint investments in the State's transport network, and to achieve maximum efficiencies through joint and innovative approaches to road stewardship, network planning, program development, purchasing and resource sharing.

The LGAQ also remains focussed on supporting individual councils in their efforts to build long-term financial sustainability. The LGAQ is currently undertaking a survey of councils to collect and examine a range of indicators relating to council financial management challenges and intends to publish a summary report later this year.

To support councils in their work toward financial sustainability, the LGAQ and its related business entities offer over 100 products and services to councils that provide opportunities to achieve efficiencies and productivity improvements. In addition, the LGAQ fosters regional innovation and collaborations designed to share both systems and actual resources to achieve better practice.

The Better Councils, Better Communities initiative, launched in 2014 and programmed to continue to 2020, helps councils to identify and analyse their performance and opportunities for improvement over time. Supported by LGAQ's local government performance benchmarking service, Ready.Set.Go, Better Councils, Better Communities objectives include to inform council business operations decisions, workforce productivity and infrastructure management.

LocalBuy, LGAQ's procurement business, provides benefits to councils who purchase products and services through its information and communication technology (ICT) supplier panels. These services allow councils to benefit from aggregated demand and reduces barriers to adoption.

The LGAQ and its entities also support councils to be more productive through the adoption of technology. This is achieved through education, including presenting case studies through Innovation Roadshows, preparing the local government Digital Productivity Report and supporting pilot projects.

The LGAQ's 2015 Digital Productivity Report showed that an increasing number of councils are planning to invest in smart solutions, including smart lighting, smart meters, drones, asset management solutions and advanced business analytics to obtain productivity benefits. A copy of this Report is attached for information.

Local Government Infrastructure Services (LGIS) has worked with Winton Shire Council to develop the design and procurement of a geothermal power plant to service the town, scheduled to be operating in 2017. Concept designs for geothermal plants were also completed for Charleville and Longreach, and pre-feasibility reviews were undertaken with other councils.

6. Suggested themes and comments on the discussion paper

The discussion paper covers a wide range of issues related to productivity performance and potential improvement. To bring these various issues into focus, the discussion paper seeks suggestions on themes (p20), as well as "new and novel ideas ... Reform options should ideally specify challenges of, and resources required for, implementation. This would include the coordination, resources and expertise required for a reform, whether an initiative requires cooperation across jurisdictions, the scope for trials and later expansion, and an evaluation strategy to assess whether the policy is working effectively." (p21)

The LGAQ would like to suggest the following themes and provides some comments on these, including opportunities to develop reforms to support more productive economies.

6.1. Regulation design

The theme of regulation design relates to the section of the discussion paper dealing with “recalibrating, inventing or discarding policy settings...” and could include a number of other initiatives, for example, the development and adherence to a set of regulation design principles by all levels of government.

While more efficient regulation and ‘red tape reduction’ are often promoted as worthwhile objectives, there are opportunities to harmonise current approaches (such as ‘best practice regulation’ initiatives) and develop a set of principles to be observed by all levels of government.

Periodic cycles or ‘triggers’ for regulation review (‘red tape reduction’) could be introduced, including across levels of government, to improve the efficiency of existing regulation, avoid / remove duplication and facilitate more efficient transfers / transactions between governments, the private sector and communities. This is noted in Chapter 2 of the discussion paper and should be considered across levels of government as well as between the public and private sectors.

6.2. Public sector coordination, collaboration and partnerships

Coordination and collaboration across all levels of government will be increasingly required to achieve scale and scope efficiencies in the delivery of public infrastructure and services.

While partnership and purchaser-provider models have been employed over a number of years, there are considerable opportunities for further efficiencies across the public sector through improved coordination, collaboration and partnership approaches to the building, operation and maintenance of public infrastructure and the delivery of services to support regional and national economies.

6.3. Public sector capability building

As an adjunct to the benefits of better coordination across levels of government, the capabilities and skills available across levels of government could be better utilised to improve overall capability for the public sector to deliver infrastructure and services.

Federal, State and Territory governments should remain purposefully engaged with local government to support capability building. This has been recognised and supported in the past, and opportunities for skills transfer across levels of government remains an effective way to support productivity improvements.

For example, in Queensland both the Department of Infrastructure, Local Government and Planning and the Queensland Treasury Corporation offer materials and run events, some in conjunction with the LGAQ, to promote financial management skill development across the local government sector.

The significant role of the local government sector in managing public non-financial assets, support for the application of continuous improvement in local government management, particularly in the field of asset management, would support improvements in productivity and long-term financial sustainability.

6.4. Pricing and revenue reform

While the discussion of the public sector’s role in improving productivity tends to focus on getting the regulatory settings ‘right’, there are also significant opportunities to better inform economic decisions through improved price information on public infrastructure and services. This includes information on CSO / transfer payments that are required to produce particular policy outcomes. The LGAQ understands that the Commission has previously undertaken work on the subject of CSOs.

Reforms that extend 'user pays' models through pricing public infrastructure consumption and services would provide information that is fundamental to resource consumption decisions. For example, following from the findings of the Harper Review, the Federal Government has been developing a heavy vehicle charging and investment model that is supported by enabling technology and under-pinned by 'user pays' and hypothecation principles.

Virtually all of the recent examples of new transport infrastructure in Queensland, and in many other States, have been funded through models that apply transparent charges including tolls. The charges reflect costs and provide a direct revenue source to maintain and renew the asset.

These projects provide benefits in the form of time savings and productivity gains to users through reduced journey times. Shorter journey times on better quality roads (and rail) also reduces the risk of deterioration of payload quality and vehicle operating and maintenance expenses.

Price signals are also important to inform the choice made by users between alternative transport modes which can help mitigate congestion, and the ability to identify and assign a revenue stream which is a preferred model for private sector participation and / or investment.

6.5. Fiscal equalisation and funding reforms

The local government sector could better perform its role, including pursuing productivity improvements, if it received more reliable, long-term funding from other levels of government.

The *Roads to Recovery* allocative funding programme has been widely recognised for its effectiveness in funding the local road network and provides a successful model of funding for local government. The certainty provided by this funding programme has allowed a number of Queensland councils to build capability and maintain efficient workforces through productivity improvements.

More reliable funding programmes are more effective because they support strategic management of infrastructure and avoid the need for short-term solutions, such as allowing assets to be 'run down' in terms of their condition and service level, which has negative consequences for productivity.

6.6. New digital economies

The LGAQ conducted a Digital Productivity Survey to determine current practices related to productivity gains from technology investments, adoption of digital engagement platforms within local councils in Queensland and, the use of technology and digital platforms. A copy of the report is attached for reference by the Inquiry.

The topic of digital economies extends from the application of emerging hardware and software, to skills training. For example, LGIS has been successful in promoting the application of drone technology and software to a range of council activities, including pipeline condition inspections and landfill site volumetric assessments. A report on potential applications of remotely piloted aircraft is also attached for reference by the Inquiry.

6.7. Strategic planning for cities and regions

The operation of Australian cities and regional centres are important to the performance of city, regional and national economies. According to ABS State Accounts data for 2014-15, 70 per cent of GDP, and approximately 70 per cent of the contribution to GDP growth, was recorded as being generated in cities (ABS 5220).

Australia's cities are complex, evolving systems that are subject to constant pressures from competing demands on land use in an environment of legacy planning and development decisions. As economies develop, structural change brings demand for new and different buildings and facilities. For example, the form and function of cities needed to manage 20C agriculture and manufacturing production were very different to what is needed today.

Cities and regional centres will need to respond to numerous transformational changes, including in construction technologies, development models, emissions and environmental standards, energy efficiency, land use and transport infrastructure provide both challenges and opportunities. In combination, these factors elevate the strategic planning for cities and other regional centres as a priority for all levels of government.

Effectively functioning cities and regional centres support job creation, transport solutions and housing options. Strategic planning for cities and other regional centres will not increase Australia's productivity on its own, but it will provide a key enabling function and should be seen as a priority and responsibility for all levels of government.

There will be an increasing expectation from economic centres that all levels of government, including GOCs, work together to ensure that cities and regional centres operate as efficiently as possible and are not constrained by policies and regulation.

The Federal Government's *Smart Cities and Suburbs* Programme is an example of the type of support that can be made available to (successful applicant) local governments and communities to adopt smart technology and increase the accessibility and use of data so that cities operate more effectively and urban services can be delivered more efficiently.

The Australian Government will need to continue to focus on the role of cities and regional centres and the LGAQ would like to see this topic feature in policy discussions on productivity.

6.8. Supporting investment in human capital

Inextricably connected to the requirement for efficient public infrastructure is the need for continuous skills development to meet the challenges of emerging technologies, digital disruption, climate change and other factors that will inevitably result in structural adjustments in Australian and international labour markets.

A 2015 study by *ceda* titled *Australia's future workforce?* emphasised the importance of "creating a culture of innovation... driven by the private sector, educational institutions and government. However, government must lead the way with clear and detailed education, innovation and technology policies that are funded adequately."

The ABS identified five industry sectors as key potential contributors to future economic growth (ABS 8170): advanced manufacturing; mining equipment, technology and services; oil, gas and energy resources; medical technologies and pharmaceuticals; and food and agribusiness.

The Commission's discussion paper notes that governments will "have a role in increasing the capacity of people to move to productive jobs and in re-distributing incomes..." The discussion on management capability (p10) is also essentially a matter of skills development and should be considered as part of the same policy priority.

Identifying skills needs for emerging industries and improving identification and participation in new skills development will (in part at least) need to be addressed through improved strategic planning, information and engagement by Federal, State and Territory governments.

Models such as Industry Training Advisory Boards and the timely dissemination of information that informs education and training choices will become increasingly important.

Improving participation in new skills development through incentives, including taxation reforms that 'make work pay' and provide incentives for continuing education, training and skills development, will remain key policy matters for the Federal Government.

6.9. Innovation policy

The take-up and adsorption / diffusion of new technologies noted on page 9 of the discussion paper is a key area for policy development by Federal, State and Territory Governments. Policies that support technology diffusion benefit both the public and private sectors, and should be a primary objective of all government policies.

On the topic of the 'idea pool' noted in Chapter 2 of the discussion paper, there is a continuing and significant role for the Federal, State and Territory Governments, their education and training agencies to continue developing partnership models that actively promote, apply and commercialise new technologies and practices into the public and private sectors of the economy.

One example of a model is the Federal Government's Business Research and Innovation Initiative. Research extension and partnership arrangements with universities or entities like the CSIRO also play an important role in improving rates of technology adoption across the economy and productivity.

Policies that support R&D and the commercialisation of R&D will be vital to Australia's productivity, and there is a case for the Federal Government to extend incentives that encourage adoption of new technologies to improve productivity.

Related to the ability for industry to make new technology investments in the efficiency of capital markets and regulatory settings should continue to promote this outcome.

6.10. Open data sharing

The importance of data is noted on pages 15-16 of the discussion paper and is fundamental to improving decisions for all participants in the economy. The LGAQ would like to commend the Australian Bureau of Statistics (ABS) on the outstanding work it undertakes in this area. ABS data informs many economic decisions, and the subject of measures of productivity is also well-covered in materials prepared by the ABS (and in other academic literature).

It is also noted that on page 3 the discussion paper broadens the measure of well-being in a society by including 'non-priced' benefits. The discipline of economics allows measurement of benefits beyond financial reporting and there are numerous examples of 'quality of living' and social advantage / disadvantage indexes in the literature, including in work undertaken by the ABS and The Commonwealth and State Grants Commissions which could inform consideration of this topic.

-o0o-