

The dire state of local government infrastructure assets

By Melissa Harrison

Although local governments collect only 3.5 per cent of Australia's taxation revenue, they are responsible for one third of all of Australia's non-financial public infrastructure assets (worth \$342 billion). The Australian Local Government Association (ALGA), which represents Australia's 537 local councils, has repeatedly emphasised the ever-increasing financial strain impacting councils as they are expected to shoulder more and more responsibilities despite dwindling funding.

The Australian Local Government Association's (ALGA) *National State of the Assets Report* is an annual assessment of the challenges local councils face in maintaining their infrastructure, which include roads, bridges, stormwater systems, waste management infrastructure and airports. In the report's 2021 edition, ALGA reported that about one third of all local government infrastructure assets are not in good condition.

ALGA reported that 10 per cent of total local government infrastructure assets are in poor to very poor condition with significant defects. Local councils in rural and remote areas report that more than 20 per cent of their assets are in poor condition. The cost to replace poor-quality infrastructure, estimated at \$51 billion, exceeds local government annual revenue. It is not known how much of the infrastructure in poor condition is high risk.

26 per cent of total infrastructure assets are in fair condition, with defects requiring regular or significant maintenance to reinstate the service, with an estimated replacement cost of \$106-\$138 billion. There are also serious issues with services provision—9 per cent of infrastructure assets have poor function and a limited ability to meet service needs. There are strains on capacity: 9 per cent of assets have poor capacity, with significant operational issues or demand exceeding designed capacity; while 22 per cent of assets have fair capacity, which means they are nearing capacity limits or experience regular operational problems.

The state of our assets

Local governments are responsible for about 77 per cent of the length of the national roads network. 8 per cent of sealed roads and 14 per cent of unsealed roads are in poor condition; the replacement cost of these roads is \$17.8 billion.

Bridges have a high consequence of failure if they are not maintained properly. ALGA's report noted that councils are responsible for 22,000 bridges, many of which "are old and do not meet the requirements of the modern transport fleet". 5 per cent of concrete bridges (\$1.2 billion) are in poor condition, and 18 per cent (\$310 million) of timber bridges are in poor condition. Many bridges "are old and not fit for purpose". ALGA observed that grant funding "appears to be allocated to structures on 'high order' roads while many local government timber bridges are located on 'low order' roads having many 'first and last mile' [the connection between a local farm or business and national transportation networks] implications if left in a poor state of repair".

Local council buildings can include libraries, administration buildings, community halls, art galleries, recreation centres and works depots. ALGA documented that local building assets valued at \$9.2 billion are in poor condition. Additionally, 8 per cent (\$1.3 billion) of parks and recreational facilities are in poor condition.

Councils are responsible for managing \$65 billion of stormwater infrastructure assets, which can include "large concrete open channel storm drains, roadside drains, and flood detention basins to water sensitive urban designs and natural

riverine systems". ALGA noted that in many councils, drainage infrastructure is decades old and does not meet current standards. \$5.3 billion of stormwater infrastructure assets are in poor condition. Councils are responsible for managing the capital-intensive waste and wastewater sector, and regional councils in New South Wales and Queensland are also responsible for clean water infrastructure. ALGA reports that 8.4 per cent (\$8.3 billion) of waste and wastewater infrastructure assets have reached or exceeded capacity, and 16 per cent (\$15.5 billion) of assets are in poor to very poor condition.

Australia has about 320 airports and around 2,000 much smaller aerodromes, airfields and landing strips, many of which are managed by local government in rural and remote areas and play a vital role in serving these communities. \$414 million worth of airport and aerodrome assets are in poor condition, and ALGA reported that "many regional airports are operating runways and infrastructure that is 70+ years old, with substantial upgrades needed to meet modern aviation safety standards". Many of these airports operate at a loss each year and depend on financing from their local councils, which are already under financial strain from increasing demands on their resources.

Where's the money going to come from?

While local government is responsible for a third of infrastructure assets but only collects 3.5 per cent of tax revenue, the federal government is responsible for one tenth of infrastructure assets yet collects 82 per cent of tax revenue. Similarly, local government tax revenue comes from only one source, rates; while federal and state governments collect 125 other taxes (99 of which are levied by the federal government). Local governments spend 20 per cent of their total expenditure on maintaining depreciating assets, in contrast to state governments (less than 6 per cent of total expenditure) and the federal government (less than 2 per cent).¹

Local government revenue comes from rates (38 per cent of total revenue), charges and sales (28 per cent), grants from federal and state governments (14 per cent), and "other" (fines, enterprise income, national disaster relief). Federal funding to local governments is through Financial Assistance Grants. Over the past three decades, the value of these grants has declined from around 1 per cent of Commonwealth Tax Revenue (CTR) to around 0.55 per cent. In ALGA's pre-budget submission to the 2022-21 budget, they repeated their plea for funding to be restored to 1 per cent of CTR, outlining the alarming state of local government infrastructure assets. However, ALGA's request was evidently ignored—in the 2022-23 budget, Financial Assistance Grants to local councils as a proportion of Commonwealth Tax Revenue actually *declined* to 0.55 per cent (\$2.8 billion), from 0.6 per cent the year before.

1. Current Financial Arrangements, Australian Local Government Association, (alga.com.au)



Australia's infrastructure assets are in a dire state, yet the federal government has ignored the funding needs of local governments for years. Local governments are increasingly burdened by cost-shifting (when they are given the responsibility for providing a service after the state or federal government has withdrawn from providing it), or rate-capping (when state governments place an artificial block on rates,

which is claimed to promote "municipal efficiency"). (AAS, 30 Mar. 2022.) These additional pressures are forcing further cuts on infrastructure spending, creating a massive asset renewal and maintenance backlog.

A public bank could provide affordable credit for local governments to invest in infrastructure; one option would be to use the Reserve Bank, as Senator Rennick proposes below.

No government should ever pay another entity for the use of its own currency

By Gerard Rennick, LNP Senator for Queensland.

7 Jun.—Today's knee-jerk reaction to inflation by the RBA in lifting interest rates by 0.50 per cent, demonstrates just how incompetent the Reserve Bank of Australia is and why they should not have independence over monetary policy.

For the last decade they have consistently lowered interest rates, allowing house prices to be inflated beyond the reach of many, and destroying the fixed incomes of many retirees. In addition, they printed more than \$300 billion during the "COVID pandemic" purely so that our economy and many small businesses could be destroyed. Thanks for nothing.

Just to be clear I think interest rates need to rise, but you can't inflate a bubble only to then pop it by crashing the economy. Instead of lifting rates too high too fast, the RBA should have announced several interest rates rises into the future allowing households and businesses to adjust their balance sheets gradually. I would have committed to raising rates by 0.25 per cent for every quarter for the next three years. This works out at around 1 per cent per year for the next three years.

The RBA is also ignoring the impact Russian sanctions are having on the price of raw commodities, especially oil. No amount of qualitative easing will ease that supply issue.

However, it is not just qualitative easing that the RBA continues to mismanage. It refuses to use quantitative easing as a monetary policy instrument. This is against the explicit recommendation of the 1937 Banking Royal Commission that says:

"The most desirable banking system in the present circumstances of Australia is one which includes privately-owned trading banks. The system contemplated is one in which:

1) A strong central bank regulates the volume of credit and pays some attention to its distribution; and

2) The distribution of credit is left to privately-owned trading banks, working for profit, but regulated in the manner already indicated."

The key point in this statement is that the central bank should control the volume of credit. This very sound policy, which had served Australia well, was thrown out the door in 1985 when Paul Keating abandoned capital controls and allowed 16 foreign banks to trade in Australia.

The biggest market in the world is the US Treasury Bond market. US Treasury Bonds come from the printing press of the Federal Reserve, whose ownership is unknown.

Every time an Australian entity borrows foreign dollars, they are transferring wealth offshore. For example, if a government were to build a dam at a cost of a billion dollars and the government borrowed that money offshore, the first billion dollars in wealth created has to be repaid offshore. Not only that, but interest on the loan also has to be repaid offshore. That means Australia has just given up over a billion dollars in wealth because the government outsourced its currency control to a group of unelected and unaccountable foreign bankers.

If you think the sale of sovereign infrastructure to offshore

interests is bad, it is nothing compared to the outsourcing of Australia's printing press.

In 1985 Australian banks had \$8 billion in foreign debt. By 2008 they had \$800 billion in foreign debt. Most of this money was used to inflate house prices (also spurred on by Keating's stupidity in allowing homes to remain capital gains tax-free). None of this money contributed to Australia's productivity; it just meant the billions of dollars in interest was now being paid offshore to foreign banks in exchange for no increase in productivity. Unlike the example of building a dam, inflating house prices does not lead to a more productive nation, but rather a more indebted one!

Inflation is ultimately caused by an excess of demand over supply. To rectify this, governments can either crush demand through unnecessary austerity measures, which is destructive; or they can increase supply through the increased production of goods and services, which is constructive.

The way forward for Australia is to start using quantitative easing in a productive manner. The best way to do this is for Federal or State Treasury Departments to borrow directly from the RBA for the construction of sovereign income producing assets. This would include dams, power stations, telecommunication networks, rails, ports, airports and toll roads. The bonds would be secured against the infrastructure they build, i.e. a secured loan rather than an unsecured loan against the future tax collections of our children.

The money derived from the infrastructure assets can be used to pay for more infrastructure or go into general revenue to pay for essential services. It is no coincidence the decline in our hospitals and schools is directly correlated to the privatisation of government infrastructure.

Greater infrastructure will increase the supply of water, energy and transport, helping to reduce inflation and make Australia a more competitive destination to do business.

This concept is nothing new. Indeed, the father of modern Australia, Lachlan Macquarie, introduced the holey dollar in 1812 in order to fund the construction of infrastructure. The reliance on foreign currency in the early days of the colony ended in disaster with the Rum Rebellion.

In conclusion, management of monetary policy cannot be isolated from fiscal policy. It should never be in the hands of incompetent and unelected officials at the RBA or foreign bankers. Interest rate changes impact fiscal policy. For example, a decrease in interest rates reduces fixed interest income for pensioners increasing the cost of the pension on the government.

No government should ever pay another entity for the use of its own currency.

It is worth noting that most RBA governors have only ever worked at the RBA. They have no idea about the real world.

It is time the Treasurer, in tandem with the government of the day and the parliament controlled qualitative and quantitative monetary policy. The RBA must lose its independence which is ultimately double-speak for no accountability.