Economic Issues

No. 38

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

Authors:
Assoc Professor Michael O'Neil
Executive Director

Steve Whetton
Deputy Director

Suraya Abdul Halim
Research Economist

September 2013

South Australian Centre for Economic Studies

ISSN 1445-6826

Published by: South Australian Centre for Economic Studies
PO Box 3192
Rundle Mall SA 5000
AUSTRALIA
Telephone: (61+8) 8313 5555
Facsimile: (61+8) 8313 4916
Internet: http://www.adelaide.edu.au/saces
Email: saces@adelaide.edu.au

Subscription and Corporate Membership:

Information on Corporate Membership of the SA Centre for Economic Studies may be obtained by contacting the Centre or at our website, www.adelaide.edu.au/saces

Executive Director's Note

Welcome to the thirty eighth issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of Economic Issues is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within the scope, the intention is to focus on key issues – public policy issues, economic trends, economic events – and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

This paper reviews the evaluations and findings of a number of Federal Nation Building economic stimulus projects with a particular emphasis on the question as to whether some projects could have been better administered and more effectively delivered through local government. What lessons can be learnt from the post-Global Financial Crisis (GFC) experience?

The authors of this paper are Assoc Professor Michael O'Neil, Executive Director; Steve Whetton, Deputy Director and Suraya Abdul Halim, Research Economist of the SA Centre for Economic Studies. The views expressed in the report are the views of the authors.

Michael O'Neil
Executive Director
SA Centre for Economic Studies
September 2013

This project has been assisted by the
Local Government Research and Development Scheme

Recent Issues Papers

37. "Re-Thinking Social Policy: Place-Shaped As Well As People-Focussed", by Cliff Walsh and Michael O'Neil, May 2013.
36. "South Australian Centre for Economic Studies: 30 Year Anniversary", by Gary Banks AO and Gary Sturgess AM, April 2013.
35. "Is Adelaide a University City?", by Michael O'Neil and Mark Trevithick, April 2013.
34. "Assisting Regions and Communities to Cope with Structural Change: Context, Objectives, Principles and Good Practice", by Cliff Walsh and Michael O'Neil, August 2011.
33. "The Economic Consequences of the Euro" by Colin Rogers, July 2011.
32. "Banking Competition: The Rhetoric and the Reality" by Dr Penny Neal, May 2011.
31. "South Australian Labour Markets: 2000 to 2010" by Michael O'Neil and Mark Trevithick, February 2011.
30. "Migration Trends in South Australia, 1998/99 to 2008/09" by Mark Trevithick, January 2011.
29. "Decline and Rejuvenation: The Provincial Cities of South Australia" by Michael O'Neil, Mark Trevithick, Daisy McGregor and Antony Pietsch, January 2011.
28. "Re-Thinking the Approach to Regional Development in South Australia", by Michael O'Neil and Cliff Walsh, December 2010.
27. "Identifying the Main Economic Issues Facing the South Australian Wine Industry", by Nicola Chandler, April 2010.
26. "Nuclear Power in Southeast Asia: Implications for Australia and Non-Proliferation", by Andrew Symons, April 2009.
25. "The Global Economic Crisis of 2008: Some Thoughts on Causes and Remedies", by Colin Rogers, January 2009.
24. "Assisting Injured Workers Return to Work: The Economy Needs You!", by Michael O'Neil and Peter Lumb, November 2008.
23. "A Review of the Literature of Active Labour Market Policies", by Michael O'Neil and Penny Neal, June 2008.
22. "Self Managed Superannuation Funds: Some Public Policy Issues Regarding Their 'Decumulation' Phase, by Owen Covick, April 2008.
21. "Australia's Productivity Growth in the 21st Century", by Dean Parham, September 2007.
20. "Building a Local Defence Industry: Workforce Requirements 2006-2010", by Michael O'Neil, Steve Whetton and Edwin Dewan, March 2007.
19. "Running on Empty: The Risk of Continuing to Dither While the Empty Light is Flashing", by Professor Peter Cullen, AO, FTSE, January 2007.
18. "South Australia's Recent Productivity Performance" by Jim Hancock and Wing Hsieh, April 2006.

17. "Mining the Labour Market: The Estimated Demand for Labour in the SA Mining Sector, 2006-2014" by Michael O'Neil and Paul Huntley, April 2006.
16. "Australia's New Trade Agreements: Beneficial Liberalisation or Harmful Policy?" by Andrew Simon, November 2005.
15. "Wind Generation and the South Australian Economy" by Stephen Nelson, April 2005.
14. "South Australia's Overseas Exports" by Paul Huntley, March 2005.
13. "The 2004/05 South Australian Budget" by Jim Hancock, July 2004.
12. "The Relative Decline of Manufacturing Employment in South Australia" by Anthony Kosturjak and Joshua Wilson-Smith, July 2004.
11. "An Ageing Australia: Small Beer or Big Bucks?" by Gary Banks, May 2004.
10. "Enhancing Trust in Australia's Tax System" by Owen Covick, April 2004.
9. "Inquiry into the Management of Electronic Gaming Machine Numbers" by Michael O'Neil and Steve Whetton, April 2004.
8. "Review of the South Australian Economy, 1990-2003" by Michael O'Neil, Penny Neal and Anh Thu Nguyen, March 2004.
7. "Darwin: A Gateway to Asia?" by Andrew Symon, March 2004.
6. "Innovation Activity and Income Levels: A Summary of Indicators" by Jim Hancock, Marianne Herbert and Steve Whetton, April 2003.
5. "The SA Labour Market Through the 1990s" by Anthony Kosturjak, February 2003.
4. "The 2002/03 Commonwealth Budget" by Owen Covick, August 2002.
3. "An Assessment of the Impact of Gaming Machines on Small Regional Economies" by Michael O'Neil and Steve Whetton, May 2002.
2. "Timor Sea Natural Gas Development: Still in Embryo" by Andrew Symon, August 2001.
1. "The 2001/02 South Australian Budget" by Jim Hancock, August 2001.

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

Overview

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 experience with similar projects. 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.

Australian Government Departments appear to have difficulty in developing new funding streams under tight time constraints. The programs whose administration ran smoothly represented larger (or more widely applied) versions of programs the Department already funded (e.g. DEEWR had extensive experience in funding capital works in schools).

This means that there are significant advantages to using established funding streams, particularly those which allocate funding based on some a-priori formula (e.g. per capita, needs based etc.).

Local government performance

While council's performance in delivering programs under the economic stimulus was mixed, local government as a whole is well endowed with the technical skills (e.g. engineering, architects, planners) to deliver infrastructure projects. Where pre-existing funding relationships existed (e.g. roads to recovery) or where funding was allocated on a 'needs' basis or per capita basis, they generally performed well. Where such relationships did not exist, or where the funding scheme was based on competitive tendering, local governments tended to perform less (although no worse than many programs delivered through state governments), in part due to the difficulty of preparing compliant bids for contestable funding rounds in a short timeframe.

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?

Local government's only played a minor role in the delivery of 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.

Local government's 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 smaller policy and project management teams appear to be less well placed to deal with rapid expansions of funding.

The ***scale of Commonwealth stimulus spending*** was significantly higher than the scale of local government capital spending, e.g. $30 billion over three years compared to annual expenditure by local governments of roughly $10.5 billion. In delivery of stimulus projects the critical constraint is the capacity to manage the delivery (e.g. writing tenders, assessing bids, managing delivery; or alternatively management of internal resources including recruiting and managing additional (temporary) staff. The capacity of local government to deliver needs to be seen in the context of the available resources and the timeframe.

The two most obvious limitations of local governments in terms of their expanding the range of services they deliver, is the relatively small size of local governments and the range of existing services they deliver.

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.

The Future

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 maintain one or more ongoing infrastructure funding programs for local government, with the funding scaled up as required.[1]

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 lags.

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.

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 small scale project titled "Localism: Learning from Federal Nation Building (Economic Stimulus) Projects".

The purpose of the project was to:

> "Review the evaluations of a number of Federal Nation Building Projects (economic stimulus) to illustrate how some of these initiatives could have been better administered and delivered through Local Government. The review to include a summary of key examples of design, administration and delivery arrangements that would build the capacity of Local Government to deliver national projects" (Terms of Reference).

The project itself was not to evaluate the Australian Government's Economic Stimulus package as a response to the 2008/09 Global Financial Crisis, but was intended to review the evaluations and findings of components of the Economic Stimulus package, where those evaluations were conducted by the Australian National Audit Office (ANOA), private consultants such as KPMG and internal department reviews.

That is to say, the project was "asking questions" of the evaluations of various economic stimulus programs, including, *inter alia*,

- what worked well and why?
- what didn't work well and why?
- could programs have been delivered more cost effectively through local government?
- which initiatives – perhaps the Jobs Plan, the Community Infrastructure Program or the Home Insulation Program – could more effectively have been delivered through a localism, placed-based approach perhaps with the involvement of local government.

The project – as a small scale research project – was seeking to learn lessons from the Economic Stimulus Plan including how arrangements could help to build the capacity of local government to deliver national programs.

The project was broadly conceptualised as follows:

Within the Australian Federal system there is significant vertical fiscal imbalance where the Federal government is responsible for the major fiscal revenue position (and policy) but lower levels of government account for considerable expenditure and local government is highly constrained in raising revenue. This situation is exacerbated in times when an economic stimulus package is warranted and especially where and when the objective is to stimulate local economies through local projects and the national economy via large infrastructure projects, because of:

- the need to quickly stimulate expenditure and maintain employment levels through fiscal expansion;
- the need to co-ordinate expenditure through multi-layers of government; and
- the lack of non-budgetary mechanisms to approve, allocate and quickly transfer funding to local projects.

Just as "managed markets" or outsourced activities are increasingly used in the health services, aged and community care, labour market and disability area, this project asked the question: can the Australian Government effectively design and outsource programs, funding and administration to local government as the principal delivery agent and in what functional areas is this feasible? The project sought to derive any key principles that are "learning lessons" from the range of programs funded under the Economic Stimulus Package to advance the debate.

At the time of commencement of this project there was a public debate and more general concerns regarding the cost of administration of some projects and some acknowledgement that local government projects had generally been well managed and cost effectively delivered. The Economic Stimulus Package with a diverse range of programs and outcomes, was considered to be a valuable case study into *a model of planning, funding, management and delivery* of large and smaller projects.

Good public policy is based on sound financial principles, decisions as to where responsibility and accountability lies and clearly enunciated principles supporting the design, implementation, delivery and evaluation of public policy. The project sets out to examine the *evidence* as to why a more local model for funding and service delivery could not be employed and what local government might do to develop the capacity and prepare for opportunity to be the program delivery agent.

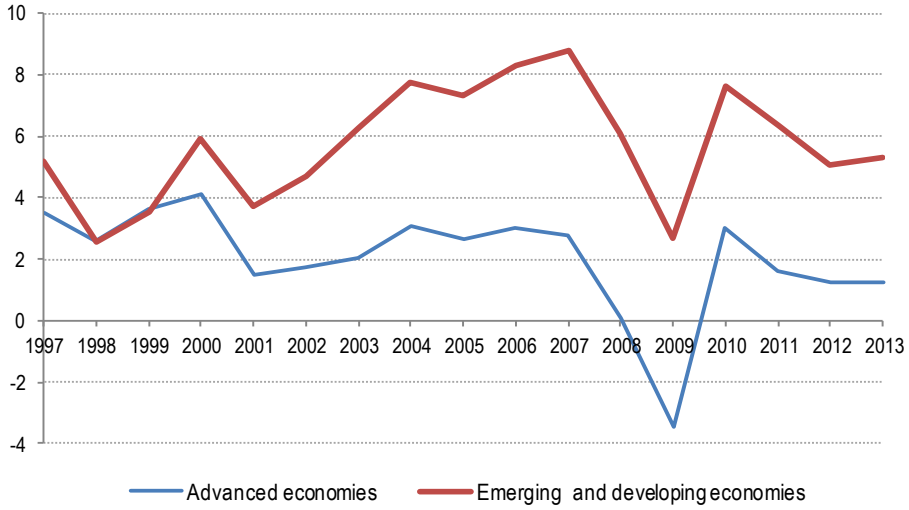
The project anticipated to assist the LGA in the first instance to examine and reflect on the evidence presented from this research. This is intended to be a platform for the LGA to consider how to take the issue forward, how to stimulate debate.

1.1 Global Financial Crisis: Need for Stimulus

In the second half of 2008 it became clear that what had initially appeared to be a localised shock to the US economy from the unwinding of a bubble market in residential property was a significant liquidity shock to the whole global financial system, with interbank lending largely ceasing in the wake of the collapse of Lehman Brothers. This led to a sharp fall in expected world GDP, impacting on equity prices and business and consumer confidence. Actual growth in the advanced economies fell to effectively 0 in 2008 and -3.5 per cent in 2009, with rates of growth in developing economies also falling back sharply, albeit from a higher base (Figure 1.1).

Australia was not immune from these impacts, with Australian firms (including banks and other home lenders) experiencing difficulties in accessing liquidity, and commodity prices and volumes falling sharply. Reflecting the negative views on near term economic prospects, and an apparent increase in risk aversion amongst investors world-wide, equity markets fell sharply with the ASX 200 falling to 60 per cent below its pre-GFC peak by early 2009. These factors, in turn, sharply depressed consumer and business confidence in Australia; reducing investment and consumption spending by both businesses and consumers.

Figure 1.1: World Economic Growth, actual and projected change in real GDP[a] per cent



Note: [a] IMF staff estimates up to 2012, projections thereafter.
Source: IMF *World Economic Outlook*, April 2013.

Economic modelling suggested that the combination of reduced demand for exports, and reduced domestic demand arising from the fall in consumer and business confidence, in the absence of intervention, would have resulted in GDP growth of -0.9 per cent in 2008/09 and -2.0 per cent in 2009/10; well below the pre-crisis trend in real GDP of roughly 3.5 per cent per annum (Treasury, 2009).

In responding to the Global Financial Crisis's impact (actual and 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.

A number of problems emerged in the infrastructure component of the stimulus programs with all component programs disbursing their allocated funding much slower than planned (in some cases significantly slower), some complaints regarding the quality of construction under the Building the Education Revolution program, and significant safety concerns with the Home Insulation Program.

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. This report explores this, and the circumstances in which local government is an appropriate manager of stimulus funds. Chapter 3 reviews the delivery of a number of the larger stimulus programs. The subsequent two chapters review the financing of local government and the characteristics of its labour force. This then forms the basis for the assessment of the best way forward in using local governments in the delivery of stimulus programs.

2. Delivering Economic Stimulus

2.1 Basic Principles

The essential principle underpinning any use of fiscal stimulus to address the impact of shocks to the economy is that, when economic growth falls substantially below its trend level due to changes in demand, there are unemployed (or underemployed) resources which could be used productively were there demand for them. In this situation, if the government increases its expenditures, the resulting increase in domestic demand can act to offset the decline in economic activity.

This differs from the usual operation of an economy where any new source of demand will (at least partially) 'crowd out' other exiting activities by increasing competition for labour which increases wages, drawing away capital from the private sector, and by leading to interest rates being higher than they otherwise would be.

The most critical issue in delivering economic stimulus is that the stimulus for the economy should occur when the economy is still experiencing lower demand, rather than when the economic recovery is in full swing, and the stimulus will then crowd out some other activity (as

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.

More broadly, in order to be effective, economic stimulus should be:

- delivered quickly;
- spending should only occur whilst the economy is still below capacity;
- the spending profile over time should match as closely as possible the impact of the negative demand shock;
- targeted in a way that maximises the multiplier of the stimulus (in the case of cash payments they should be targeted at groups with a high average marginal propensity to consume, e.g. those on lower incomes; in the case of capital spending it should be targeted at sectors with unemployed labour which can be quickly re-employed, and on projects that have a low import intensity[2]);
- targeted at sectors of the economy (or regions) that are particularly hard hit by the negative shock;
- be of a scale that is commensurate with the expected fall in real GDP relative to its potential;
- all other things being equal, where the project involves capital expenditure it should ideally increase the productive capacity of the country, or reduce future government expenditures (e.g. by bringing forward planned expenditure).

2.2 Australian Government Response to the Global Financial Crisis

Initially the Australian Government's response[3] was focussed on addressing the liquidity problems that emerged as a result of the collapse of Lehman Brothers with the Reserve Bank expanding the range of securities it accepted from authorised deposit-taking institutions; and the Australian Government introducing Government guarantees for deposits and (in exchange for a fee from the issuing bank) for wholesale debt securities issued by Australian lenders and directing the Australian Office of Financial Management to purchase mortgage backed securities issued by Australian lenders.

The Reserve Bank also sharply reduced official interest rates − with the official cash rate falling from 7.25 per cent at the start of September 2008 to 3 per cent in April 2009 − to push down the borrowing costs of businesses and consumers (relative to what they would have been in the absence of monetary policy, although much of this reduction was offset by increased bank funding costs).

Whilst these measures, together with the strong initial state of the Australian financial sector, prevented a significant liquidity crisis in Australia, the Global Financial Crisis (GFC) had a significant effect on consumer and business confidence, and in turn on expected domestic demand. In response the Australian Government announced a range of stimulus measures, namely the:

- Economic Security Strategy (October 2008, total expenditure $10.46 billion);
- Council of Australian Governments (COAG) Funding Package (December 2008, total expenditure $11.08 billion);
- Nation Building Package (December 2008, total expenditure $3.03 billion);
- Nation Building and Jobs Plan (February 2009 total expenditure $42.14 billion); and
- Measures announced in the 2009-10 Budget ($21.03 billion).

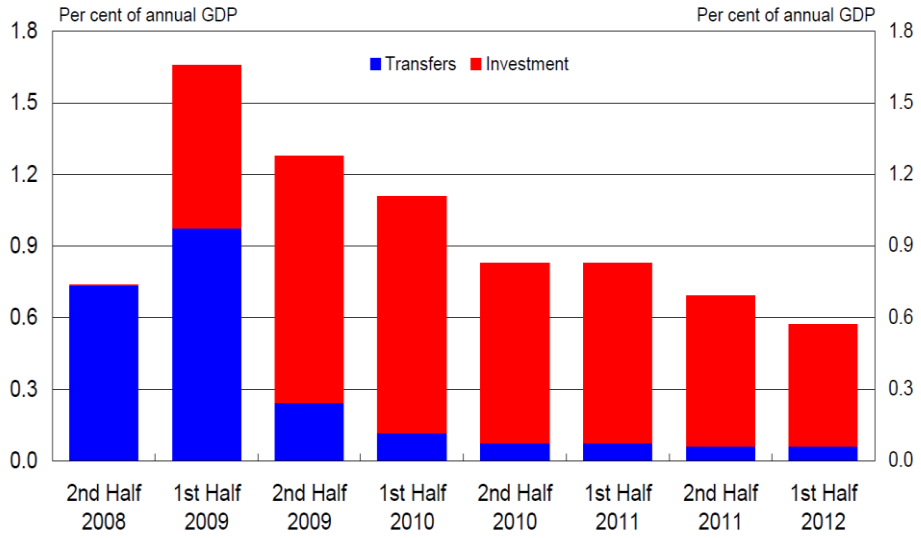
(Treasury 2009, McDonald and Morling 2012a & 2012b)

The structure of the Australian Government's response was heavily influenced by research the Australian Treasury had undertaken into its response to the recession in the early 1990s. In that case much of the stimulus was delivered when the economy was already in a self-sustaining recovery, and was therefore at best useless and at worst potentially counterproductive resulting in interest rates being higher than they otherwise would have been in the recovery phase, and diverting resources from the expansion of the private sector. As a result the first wave of stimulus, when the potential scale and duration of the downturn were unknown, was focussed on cash transfers, with infrastructure projects only assuming a significant scale once it was apparent that the global impacts of the GFC were likely to be significant and long-lasting. Even then, the types of infrastructure spending targeted was focussed on those which were believed to be quickest to commence.

The first program, the Economic Security Strategy, was largely cash grants targeted at groups with high average marginal propensities to consume, with the subsequent programs largely focussed on infrastructure spending. Across the four programs total spending on transfers was $22.5 billion, with infrastructure spending of $48.6 billion and increased transfers to state and territory governments of $11.1 billion.

Figure 2.1 illustrates the proposed timing of the stimulus measures as at the 2008-09 budget.

Figure 2.1: Planned timing of stimulus spending



Source: Gruen (2009, p.3).

As will be explored in the following Chapter, actual delivery of many of the infrastructure programs was delayed and so it is unlikely that this would have been the actual profile of spending.

3. Experience with Stimulus Programs

The Australian Government's response to the Global Financial Crisis included planned infrastructure spending of $48.6 billion over four years, delivered through a range of programs and initiatives. The lessons learnt from these programs should be able to shed light on the optimal role for local governments in delivering stimulus programs in future.

The nature and the timing of each of the programs, together with any issues that emerged regarding their implementation, are summarised below. Whilst this discussion attempts to be comprehensive, not all programs introduced as part of the response to the Global Financial Crisis have been included in the following discussion. The most notable omission are the two programs that were aimed at bringing forward private sector expenditure, namely the boost to the First Homeowners construction grant, and the Small Business and General Business Tax Break.

The overviews of program's experience in this Chapter are based on the various reviews undertaken by Commonwealth bodies including the Australian National Audit office, the Joint Committee on Public Accounts and Audit, the Building the Education Revolution Taskforce, the review of the Social Housing Initiative, and the Hawke Review of the Home Insulation Program.

It is important to note that this Chapter does not purport to assess the ***impacts*** of the various programs funded by the Commonwealth in response to the global financial crisis. Nor is there a focus on evaluating

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;
- DEEWR was able to deal with central authorities and use of "block grants" to non-government school sector;
- highly focussed program – iconic buildings in primary schools;
- able to bring forward school infrastructure backlog (i.e., ideas/projects waiting to go/ able to be planned).

The Building the Education Revolution program was announced in February 2009 as the largest component of the Australian Government's Nation Building and Jobs Plan (the second round of stimulus funding). The initial budget allocation was $14.7 billion, although this was subsequently increased to $16.2 billion. The majority of the budget, $14.1 billion, was allocated to the Primary Schools for the 21st Century (P21) element which funded the construction of a new 'iconic' building (e.g. gymnasiums, school halls, classroom blocks) for each primary school in the country, with much smaller allocations of funding ($1.3 billion and $0.8 billion respectively) for school refurbishment and science and language centres. As it was the focus of all subsequent reviews of the program's performance, the following discussion will be focussed on the P21 Program.

Infrastructure funding for schools was identified as the preferred form of infrastructure spend for the Nation Building and Jobs Package as it was believed that a number of characteristics of it would lead to more rapid spending than with the typical infrastructure project, making it more suitable as a form of stimulus. In particular:

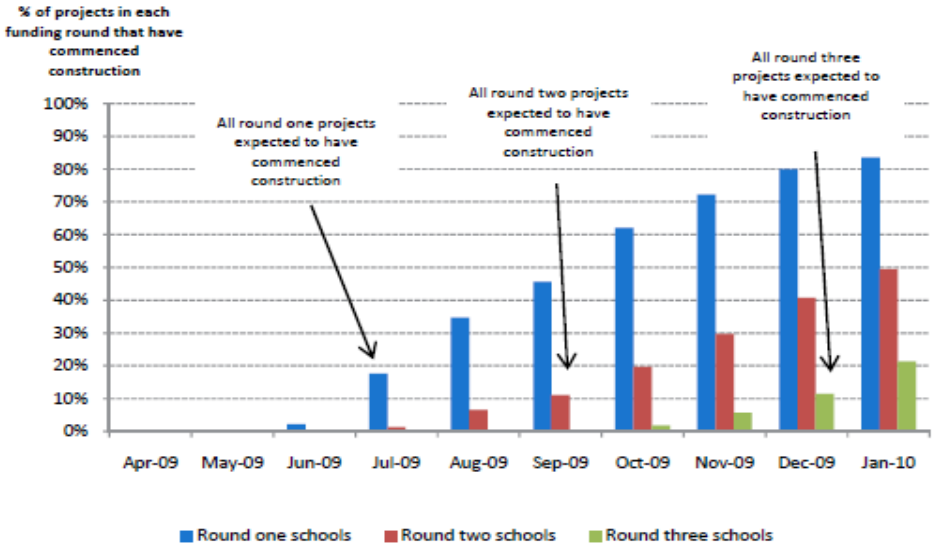
- schools are spread widely throughout Australia and distributed on a broadly similar basis to the population;
- planning permission did not need to be secured for developments on government school grounds; and
- the use of template designs for key building types by State Government education departments would lead to more rapid construction.

The program was administered by the Department of Education, Employment and Workplace Relations through funding agreements with State and Territory education authorities and 'block grant authorities' which represent independent and catholic schools in the States and Territories.

The ANAO review of the BER in 2010 noted that DEEWR had extensive experience in managing programs targeted at improving the quality of school infrastructure, and that it was able to draw on this experience and expertise in designing and implementing the program. This meant that program guidelines, and the program agreements with the block grant authorities, were developed quickly.

Delivery of the construction activities to the original schedule was much less straight-forward. The original target was to have all Round 1 projects commence construction by July 2009, but, as can be seen in Figure 3.1, by that point slightly less than 20 per cent had commenced, with subsequent rounds having slightly slower starts with just over 10 per cent of the projects funded in each of rounds 2 and 3 having commenced construction by the data on which all projects in that round were expected to have done so.

Figure 3.1: Cumulative proportion of BER P21 projects that have commenced construction by funding round as at January 2010, ANAO analysis of program data

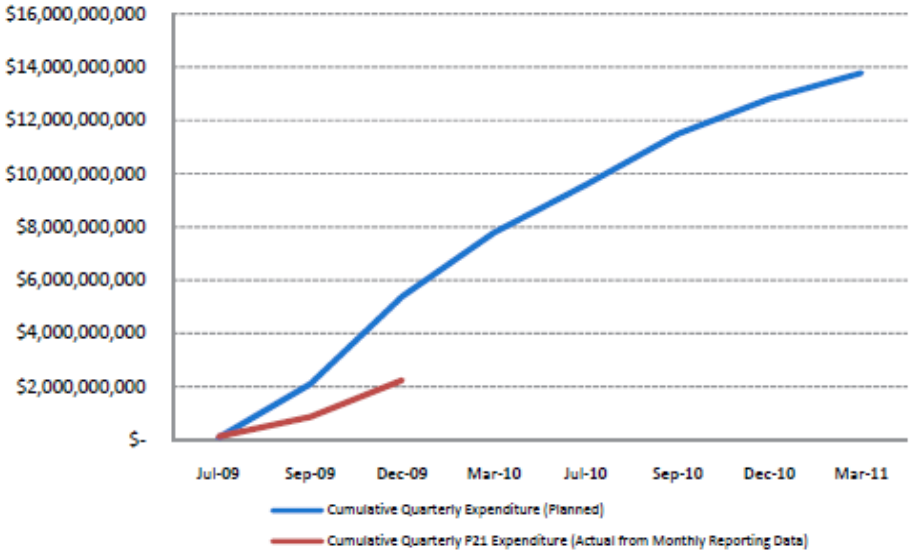


Source: ANAO 2010a, p. 155.

A similar pattern could be observed in the early data on actual expenditures on P21 projects, with just over $2 billion spent by December 2009, compared to the target of roughly $6 billion (Figure 3.2).

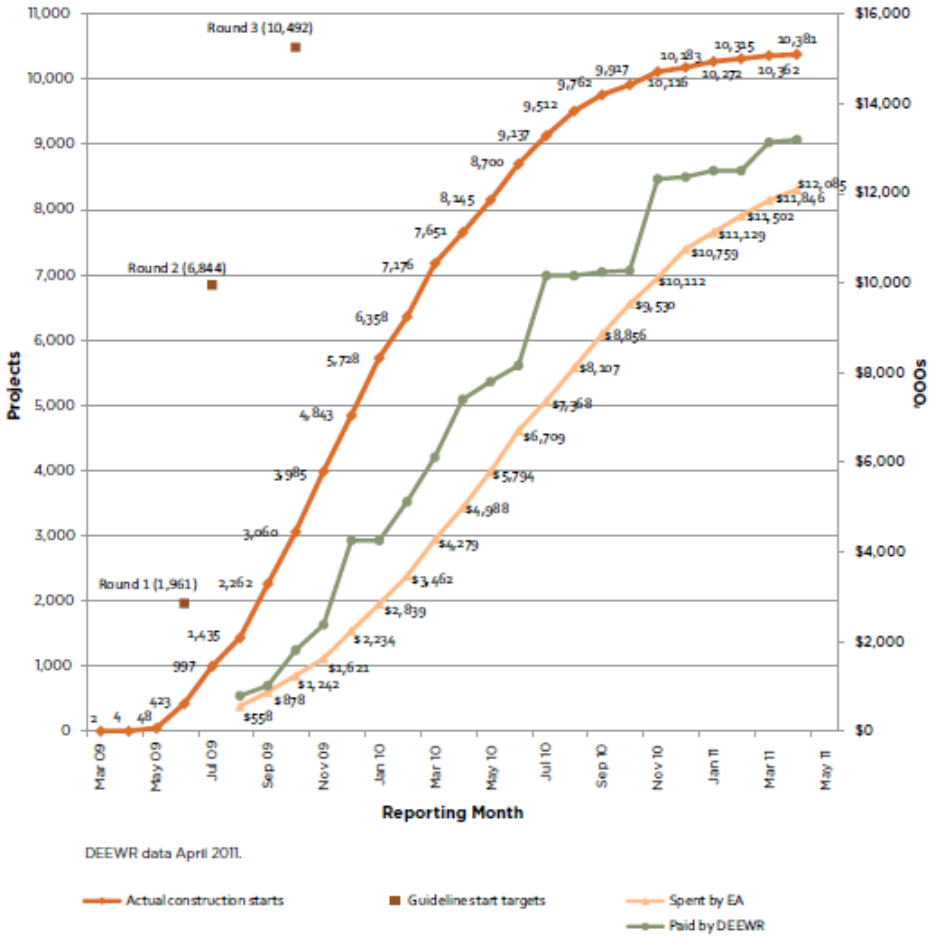
In keeping with several other infrastructure projects funded under the Australian Government's response to the GFC, expenditures picked up rapidly after the slow initial start. However, the BER Implementation Taskforce reported that by March 2011, when all projects were expected to be completed under the program timelines, total expenditures were $11.8 billion, 84 per cent of the total allocation (Figure 3.3).

Figure 3.2: Cumulative planned and actual expenditures on BER P21 Projects as at January 2010 − ANAO analysis of program 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	93.2	2,632	88.2
Victoria	2,164	98.3	1,795	81.5
Queensland	1,787	99.7	1,555	86.8
Western Australia	1,127	100.0	937	83.2
South Australia	797	96.7	721	87.5
Tasmania	270	99.9	245	90.9
Northern Territory	156	89.3	142	81.4
Australian Capital Territory	139	99.9	136	97.6
Catholic Total	2,800	99.0	2,491	88.1
Independent Total	1,522	98.9	1,430	93.0
Grand Total	**13,542**	**97.6**	**12,085**	**87.1**

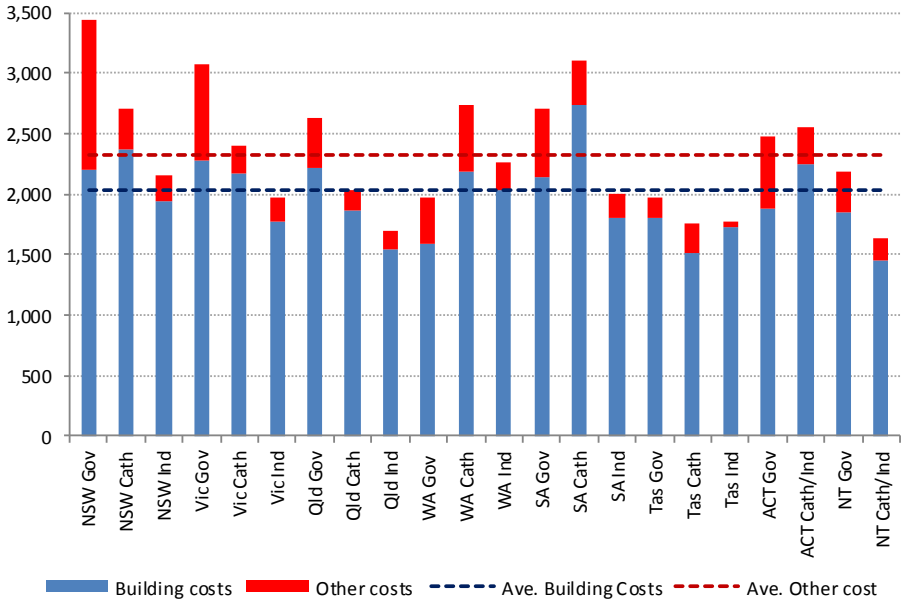
Source: Orgill et al 2011, p. 15.

In general the projects funded through the BER P21 scheme were well received by their school communities with 332 complaints registered with BER implementation taskforce out of a total of over 10,000 projects. NSW and Victorian Government Schools accounted for 72 per cent of these complaints despite only accounting for 37 per cent of projects.

The construction cost of projects under the BER was reasonably consistent across jurisdictions ranging from $\$1,452/m^2$ for Catholic and Independent schools in the Northern Territory to $\$2,739/m^2$ for Catholic schools in South Australia. The variation in other costs (agency and management fees, unique project costs and external works and services) was more significant ranging from $\$39/m^2$ for independent schools in Tasmania to $\$1,239/m^2$ for government schools in New South Wales.

New South Wales Government schools had the highest average cost by a significant margin at $\$3,448/m^2$ compared with the national average of $\$2,333/m^2$, with Victorian Government schools and Catholic schools in South Australia also significantly above average at roughly $\$3,100/m^2$ (see Figure 3.4).

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 in the size and capabilities of State Government 'Works' Departments, 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.

> The Taskforce view is that the NSW Government's high total project 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

> Victoria may represent a false economy (i.e. governments may incur increased costs when the capability to be a fully informed buyer is lacking and services are outsourced). The high external works and services costs may be partially explained by backlogged infrastructure investment and maintenance. In Victoria's case, unique project costs are high relative to its peers which reflect imprecision around cost allocation as much as site specific factors. (p. 10)

3.2 Social Housing Initiative

- best infrastructure project meeting profile of spending;
- specifically targeted to social housing, new construction, repair/maintenance and refurbishment;
- brought forward existing maintenance schedule, renovation;
- brought forward new construction (with obvious demand);
- clear numerical indicators of outcomes that demonstrate and justify value of outcomes.

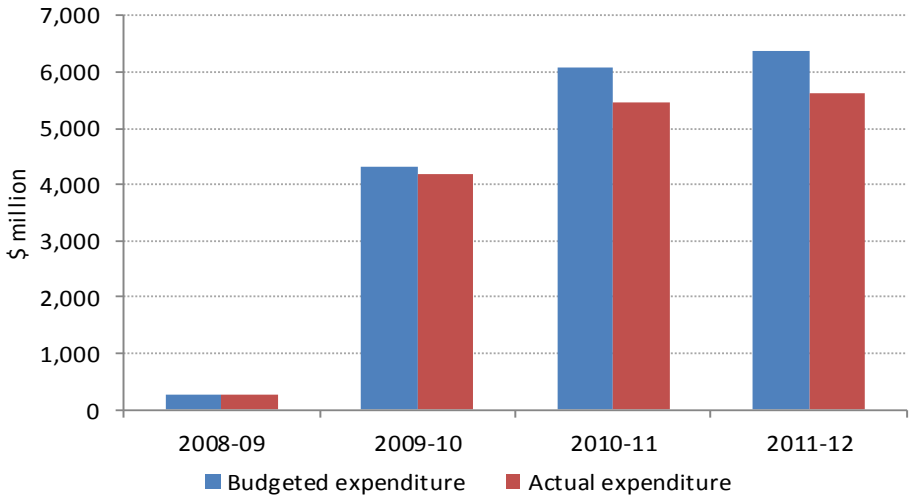
The Social Housing Initiative was launched in February 2009 as part of the Nation Building and Jobs Plan. It provided $5.2 billion to State and Territory governments to build new social housing, and $0.4 billion to renovate existing social housing. The administration of the grants was undertaken through a national partnership agreement with the states and territories.

The funding for the program allowed the construction of 19,700 new social housing dwellings, and funded repairs and maintenance for 80,500 homes resulting in 12,000 dwellings either returning to use earlier than they would have under the pre-existing maintenance schedule or preventing them from becoming uninhabitable. This exceeded the targets set for the program which set a minimum target of 17,500 new dwellings, 74,000 dwellings to undergo repairs and maintenance and 2,500 refurbished dwellings returning to the housing stock.

The review of the Social Housing Initiative (KPMG 2012) concluded that the procurement processes had been managed effectively in each jurisdiction with objectives aligned with the program guidelines, procurement occurring in a timely manner, and value for money achieved in the projects. The review also concluded that the program made a significant impact on sustaining employment in the construction sector in the face of the impacts of the GFC.

After following the targeted expenditure profile very closely in 2008/09 and 2009/10, expenditure fell slightly behind in 2010/11 and 2011/12 with the residual funds expected to have been spent by the end of 2012. Whilst this represents a slight slippage − (expenditure was 73 per cent of target in 2010/11 and 58 per cent in 2011/12 − the program was amongst the best of the infrastructure programs in meeting the required profile of spending (see Figure 3.5).

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 range of economic stimulus measures to address the impacts of the global financial crisis in February 2009. It was planned that $2.8 billion would be disbursed through the program over 2½ years from 1 July 2009 to December 2011. The program was administered by the Department of Environment, Water, Heritage and the Arts (although the wind-up of the program was undertaken by the newly established Department of Climate Change).

In its 7.5 months of operation the program generated claims of $1.45 billion, well ahead of schedule, with insulation installed in almost 1.2 million homes. It appears that this was the only stimulus program in which the funds were spent faster than planned.

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 program's size. More worrying were that issues with safety and quality 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. Given the Hawke Review's estimate of pre-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

in cases where the potential risks from the activities being funded are very low.

3.4 Strategic Projects Component of the Regional and Local Community Infrastructure Program

- contestable funding stream for local government, 137 or 484 applications approved, $550 million (value of applications 4 times this);
- expenditure did not meet delivery milestones and total expenditure was less than quarter of the total by agreed completion date (not all due to delayed delivery);
- does the number of applications illustrate "high priority" when 188 projects shortlisted of 484 applications?
- procedures related to contestability and application seeking not the most favoured approach to more rapid implementation of stimulus programs.

This program created a contestable funding stream for local governments providing funding for "high priority infrastructure projects with a value greater than $2 million". The initial funding available in November 2008 was $50 million, but this was expanded to $550 million in February 2009. The program was administered by the Department of Infrastructure, Transport, Regional Development and Local Government.

In keeping with other stimulus programs, the objective was for the funding to be spent rapidly, with $300 million budgeted to be disbursed in 2008/09 and $250 million to be disbursed in 2009/10 (ANAO 2010b, p. 212). In order to deliver on these timings all projects were required to start by 31 December 2009, with earlier commencement preferred.

A total of 484 applications were received for the expanded funding, requesting $2.05 billion in Australian Government funding. 188 of these projects were shortlisted, with 137 being approved for funding.

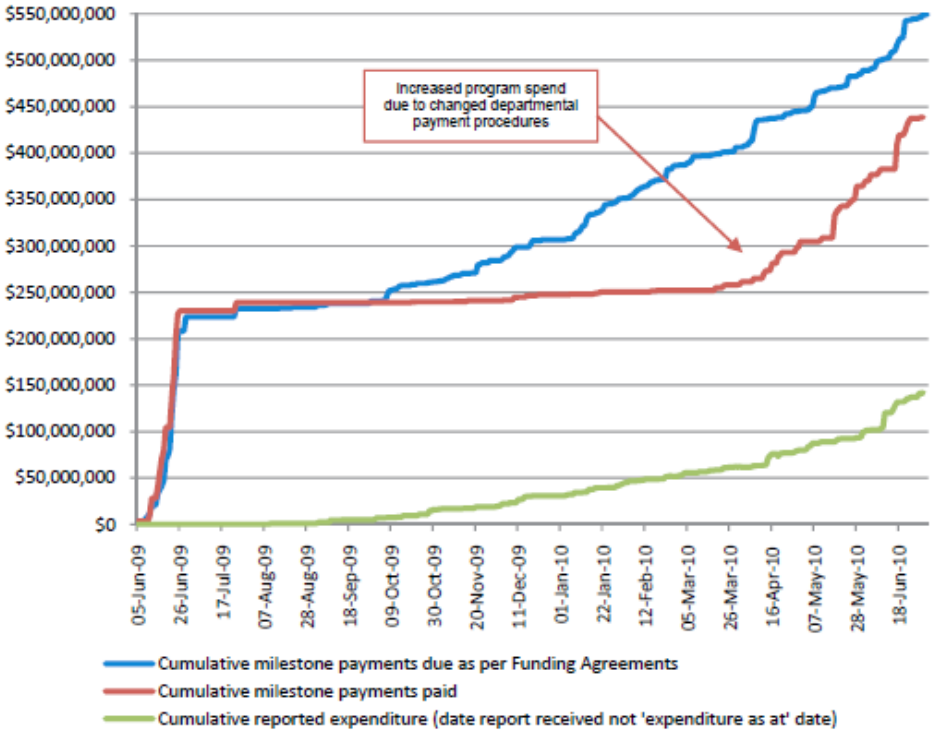
Progress reports provided to the Department suggested that although the targeted start date was not met for all projects, 74 per cent had commenced by December 2009.

Subsequently, audits by the ANAO showed that this was not the case. Only 10 of the 137 funded projects had completed the activities required for their second milestone payment within one month of the date set out in the project agreement. By December 2009 only $25 million had actually been spent by councils (see Figure 3.6). All expenditure was supposed to have been completed by June 2010, however by this date councils had spent just under $150 million, not much more than one quarter of the total.

More recent assessments by ANAO estimated that the funding provided under the program was not expected to be fully spent by councils until July 2012, two years later than the planned end date of the program.

Not all of this represents delayed delivery by councils. Approximately 33 per cent of projects were approved by the Department despite having an expected completion data that was after the proposed end of the program. Similarly 42 of the 137 successful projects were identified as being at high risk of not delivering on schedule in the Department's tender assessments.

Figure 3.6: Scheduled and actual payments to councils, and expenditure by councils, ANAO calculations from program data



Source: ANAO 2010b, p. 228.

3.5 Council Allocation Component of the Regional and Local Community Infrastructure Program

- council allocation component of the Regional and Local Community Infrastructure program resulted in 6,000 funded projects over three funding rounds;
- that projects had to be additional and ready to proceed ("shovel ready") suggests that councils do have a backlog of capital expenditure projects at any given time;
- it would be wise for councils to retain a "secondary list" of capital expenditure projects that are additional and ready to go and to update this on an annual basis, and/or to maintain a list of additional capital expenditures to scale-up existing projects.

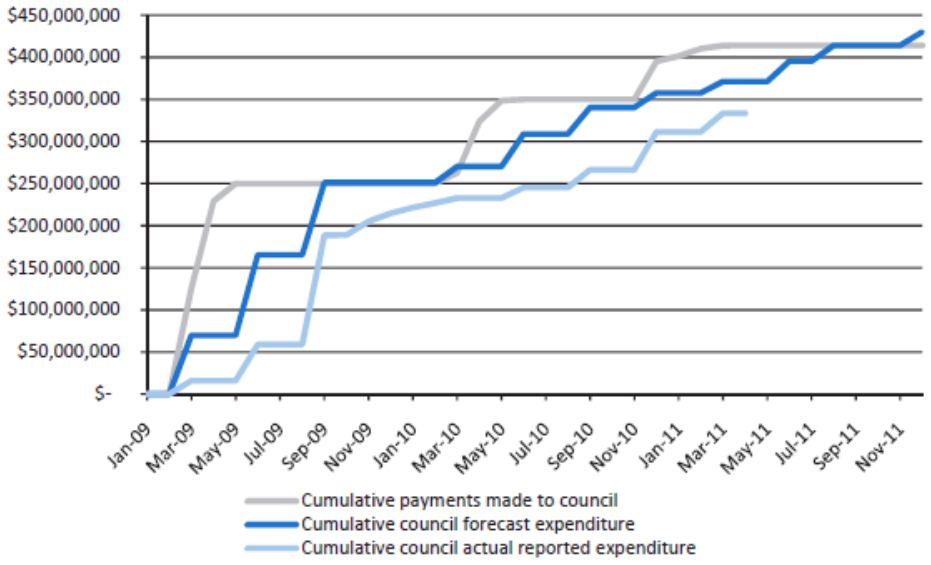
The Regional and Local Community Infrastructure Program (RLCIP) was launched in December 2008 as part of the Nation Building Package, with two streams of funding; a contestable funding stream for strategic projects (discussed above) and the 'council allocation component' a set allocation for each council calculated based on an assessment formula. The council allocation component distributed $450 million over three

funding rounds, with each council receiving a minimum of $100,000 in the first round and $30,000 in each of the two subsequent rounds, with additional funds allocated to 'growth' councils and to larger councils. Total allocation of funding was $250 million for Round 1, and $100 million each for Rounds 2 and 3.

The funding was 'tied' in that it could only be used for projects approved by the Department of Infrastructure, Transport, Regional Development and Local Government. Projects had to be in one of six categories, had to be "ready to proceed", and the council had to provide evidence that the project was additional (e.g. that it would not have been funded at this time if it had not been for the program). More than 6,000 projects were funded across the three funding rounds.

Funding was provided to councils on signing the funding agreement for a project, rather than against milestones, hence the 'stepped' profile of payments in Figure 3.7.

Figure 3.7: Forecast and actual expenditures on the council allocation component of the RLCIP, ANAO analysis of program data



Source: ANAO 2011, p. 74.

The Department delivered the first round of funding within very tight timeframes, taking an average of 51 days to complete the assessment process, and develop and sign funding agreements. The approval processes for the second round were much slower, taking an average of 123 days. This was partly because the Department had reacted to delayed delivery in the first round by scrutinising project applications more closely, and partly due to councils having difficulty in identifying complying projects.

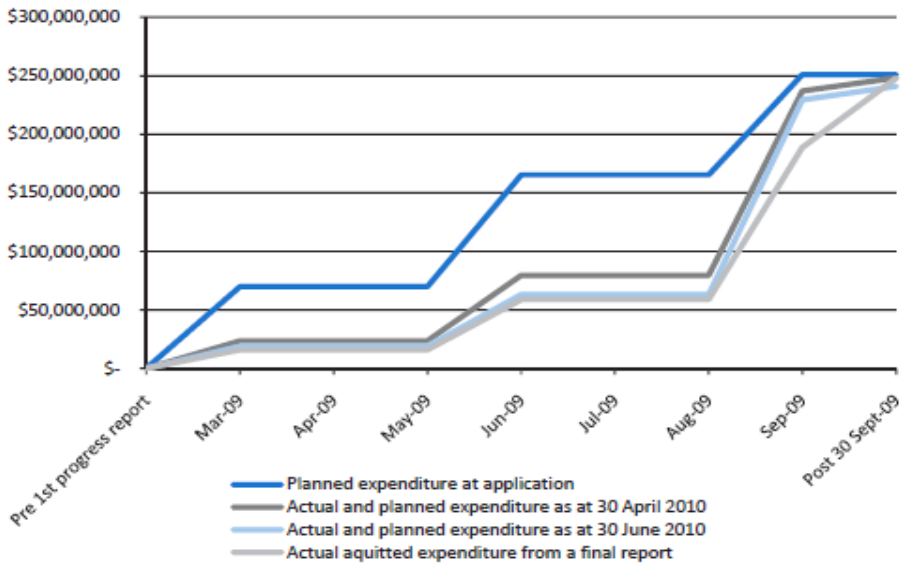
Actual expenditure by councils lagged the forecasts in project applications, in some cases considerably. The funding deadlines set out in the program guidelines (reflected in councils' forecast expenditures) were that all expenditures by councils relating to Round 1 projects should

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 schedule (expenditures at September 2009 were roughly $190 million). By the end of December 2010 when total expenditures should have been $350 million based on the original program schedules actual expenditures by councils were roughly $310 million.

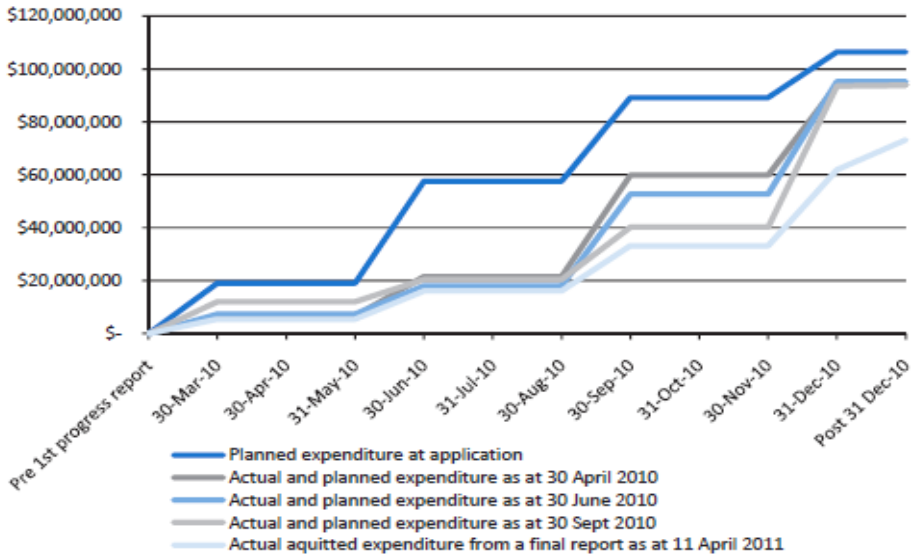
Within individual funding rounds the pattern of spending by councils seems to match the 's-shaped' distribution observed in a number of other stimulus programs. In the case of Round 1 just over ¾ of the allocated funding had been spent by councils by the planned end date for the round (September 2009). Spending on Round 2 programs was slightly slower with roughly 60 per cent of funds spent by the end of the round (Figure 3.9).

Figure 3.8: Forecast and actual expenditures on Round 1 projects of the council allocation component of the RLCIP, ANAO analysis of program data



Source: ANAO 2011, p. 74.

Figure 3.9: Forecast and actual expenditures on Round 2 projects of the council allocation component of the RLCIP, ANAO analysis of program data



Source: ANAO 2011, p. 80.

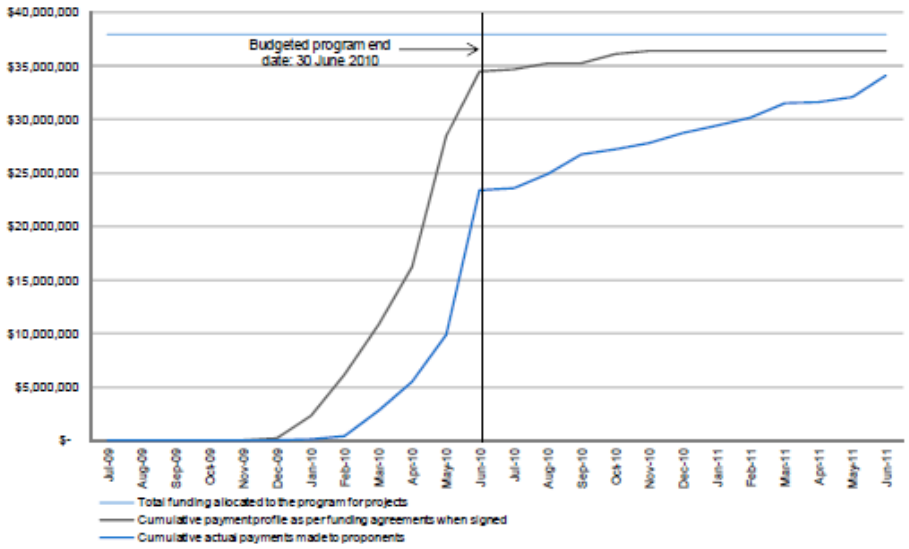
3.6 Bike Paths Component of the Local Jobs Stream of the Jobs Fund

The Jobs Fund was announced in April 2009 with a total budget of $650 million to fund training and skills development and selected infrastructure projects. $40 million of the Jobs Fund was set aside for the construction of bike paths. The call for applications for the Jobs fund was announced on 18 April 2009, with applications closing on 22 May 2009. A total of 255 applications seeking $105 million in funding were assessed under the Bike Paths Component. Project agreements were signed with 167 of these projects.

Funding under Bike Paths Program was allocated for the 2009/10 financial year, and in the program guidelines all spending was required to occur by the end of June 2010. This changed slightly after the assessment of bids when the project timelines were changed such that 93 per cent of the funds allocated under the program would be disbursed by the end of June 2010, with the remainder spent by November 2010.

Actual spending was significantly slower. The first project agreements were not signed until December 2009 (and consequently no funds were disbursed over this period), and effectively no payments were made until after February 2010. Project payments under the project were generally linked to construction milestones and so the profile of actual payments made is a reasonable guide as to actual construction activity of the projects. This shows that as at the end of June 2010 project payments were only 68 per cent of the revised schedule (and only 62 per cent of the total agreed funding). This had not increased significantly by November 2010 with total payments to projects at roughly 72 per cent of the approved total (Figure 3.10).

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 'own source' revenue through:

- 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 revenue tables of the ABS's Government Financial Statistics publication, with only 'current grants and subsides' included. 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 preferred 'accrual' based measures for government finance, the 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

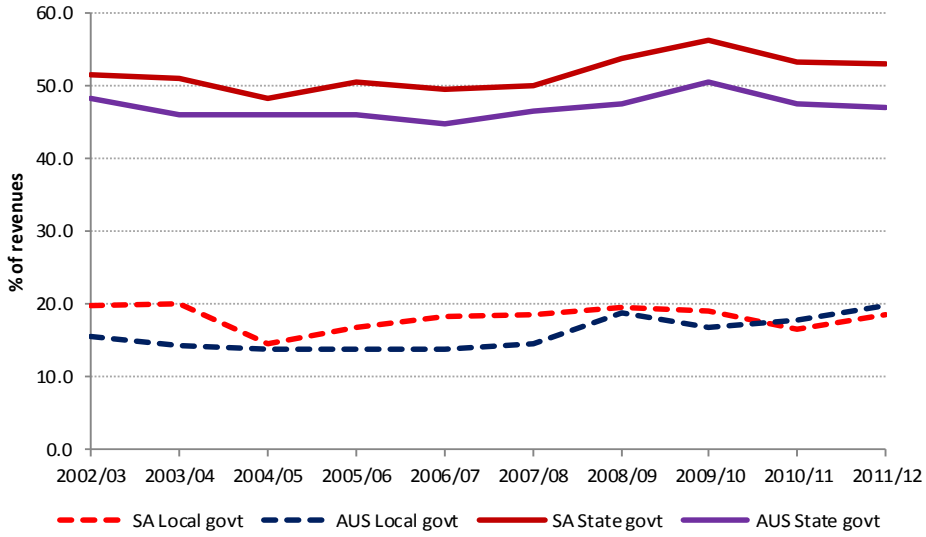
responsible for water and sewerage services, significantly boosting the share of revenue they derive from 'sales of goods and services'. Brisbane City Council is also responsible for public transport across the Brisbane metropolitan area, further boosting its revenue from 'sales of goods and services'. What is consistent across the jurisdictions is the high reliance of local governments (compared with state and territory governments) on own source revenues (see Table 4.1).

The patterns of expenditure also differ between levels of government in a consistent way, with employee expenses taking a much greater share of state and territory government expenditure than for local governments, and with capital spending (both depreciation and net increases in the capital stock playing a much greater role for local governments. For example depreciation of the existing capital stock is equal to 17 per cent of total revenues for local governments but only 5 per cent of revenues for state and territory governments.

In order to identify the contribution of the full range of grants and subsidies (including grants for capital expenditure) Table 4.2 outlines revenues on a cashflow basis. In 2011/12 grants and subsidies accounted for just under 50 per cent of the income of state and territory governments, but only 20 per cent of the revenue of local governments.

Figure 4.1 shows revenues from grants and subsidies on a cashflow basis over time. The share of local government revenues has been broadly consistent since 2002/03. In contrast the share of state government revenues from grants and subsidies began to rise rapidly due to the combined effects of a small fall in the value of own source state government revenues in 2008/09, and very significant increases in grants (largely from stimulus programs) in 2009/10.

Figure 4.1: Proportion of revenue from grants and subsidies, cash flow basis, Local and State Governments



Source: ABS (2013), *Government Finance Statistics.*

Table 4.1: Local and State Government Budget Aggregates, Accrual Basis, South Australia & Australia, 2011/12

	SA LGA		AU LGA		SA State		AUS States	
	$m	Per cent of total	$m	Per cent of total	$m	Per cent of total	$m	Per cent of total
GFS Revenue								
Taxation revenue	1,163	56.3	13,209	35.8	3,853	24.2	59,686	28.4
Current grants and subsidies	268	13.0	4,251	11.5	7,465	46.9	88,428	42.1
Sales of goods and services	331	16.0	9,029	24.5	2,015	12.7	21,270	10.1
Interest income	30	1.5	1,235	3.3	185	1.2	4,183	2.0
Other	275	13.3	9,151	24.8	2,386	15.0	36,542	17.4
Total	***2,067***	***100.0***	***36,874***	***100.0***	***15,904***	***100.0***	***210,109***	***100.0***
GFS Expenses								
Depreciation	418	23.0	6,135	20.1	718	4.4	10,360	5.0
Employee expenses	626	34.4	11,284	36.9	7,436	46.0	91,063	43.6
Other operating expenses	719	39.5	11,950	39.1	3,971	24.6	53,244	25.5
Other interest and property	40	2.2	633	2.1	834	5.2	10,260	4.9
Grants and subsidies	17	0.9	352	1.2	2,717	16.8	37,046	17.7
Capital transfers	2	0.1	215	0.7	490	3.0	7,119	3.4
Total	***1,821***	***100.0***	***30,569***	***100.0***	***16,165***	***100.0***	***209,092***	***100.0***
	$m	Per cent of total revenue	$m	Per cent of total revenue	$m	Per cent of total revenue	$m	Per cent of total revenue
Capital spending								
Gross fixed capital formation	616	29.8	10,588	28.7	1,617	10.2	23,424	11.1
less Depreciation	418	20.2	6,135	16.6	718	4.5	10,360	4.9
Net acquisition of non-financial assets	***203***	***9.8***	***4,774***	***12.9***	***838***	***5.3***	***14,698***	***7.0***

Source: ABS (2013), *Government Finance Statistics.*

Table 4.2: 2011/12 Local and State Government Budgets - Revenue Components Cashflow Basis South Australia & Australia - $m and per cent per annum

	SA Local Government $m	SA Local Government Per cent	AU Local Government $m	AU Local Government Per cent	SA State Government $m	SA State Government Per cent	AU State Governments $m	AU State Governments Per cent
Taxes received	1,173	58.2	13,094	37.9	3,890.0	23.9	60,374.0	27.7
Receipts from sales of goods and services	336	16.7	9,376	27.1	1,941.0	11.9	22,221.0	10.2
Grants and subsidies received	374	18.5	6,814	19.7	8,666.0	53.2	102,477.0	47.0
Other receipts	134	6.6	5,309	15.3	1,806.0	11.1	32,744.0	15.0
Total	**2,017**	**100.0**	**34,594**	**100.0**	**16,303.0**	**100.0**	**217,817.0**	**100.0**

Source: ABS (2013), *Government Finance Statistics.*

In general, the top four largest share of local government expenditure are in the following areas (see Figure 4.2):

- transport and communications;
- housing and community amenities;
- recreations and culture; and
- general public services.

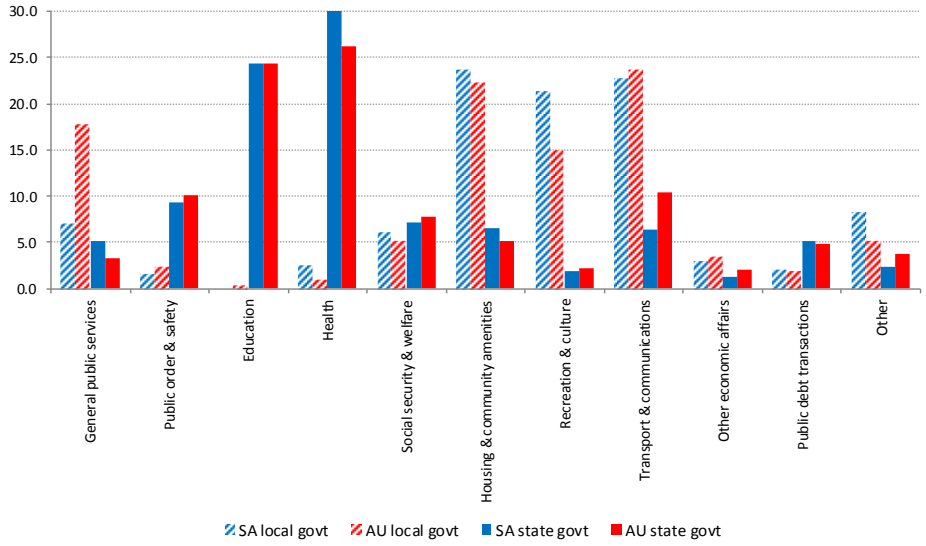
However, the share of expenditure for these four categories for SA local governments differ from the average of other local governments. In part, this is because there is considerable variability between state jurisdictions. For example, Queensland, Tasmania and some New South Wales councils provide water supply services while Brisbane city councils provide urban transports (PC, 2008, p. 19).

South Australia local governments appear to spend more on 'recreation and culture' rather than its administrative operations, 'general public services' as shown in Figure 4.2. In 2010/11, nearly 20 per cent of its expenditure is spent on 'recreation and culture' compared to the national average of 15 per cent and 14 per cent of its expenditure on its administrative operations compared to the national average of nearly 20 per cent.

Since 2001/02, SA local governments have been spending an increasing proportion of its expenditure on 'Housing and Community' and 'recreation and culture' while spending proportionately less on its administrative processes. From Figure 4.3, compared to its own expenditure growth at 5 per cent per annum, growth in 'housing and community' averaged 11 per cent per annum, higher than the national average at 6 per cent per annum while growth in 'recreation and culture' averaged 8 per cent per annum. Growth in its own administrative function averaged at 4 per cent per annum, also lower than the national average of 8 per cent per annum.

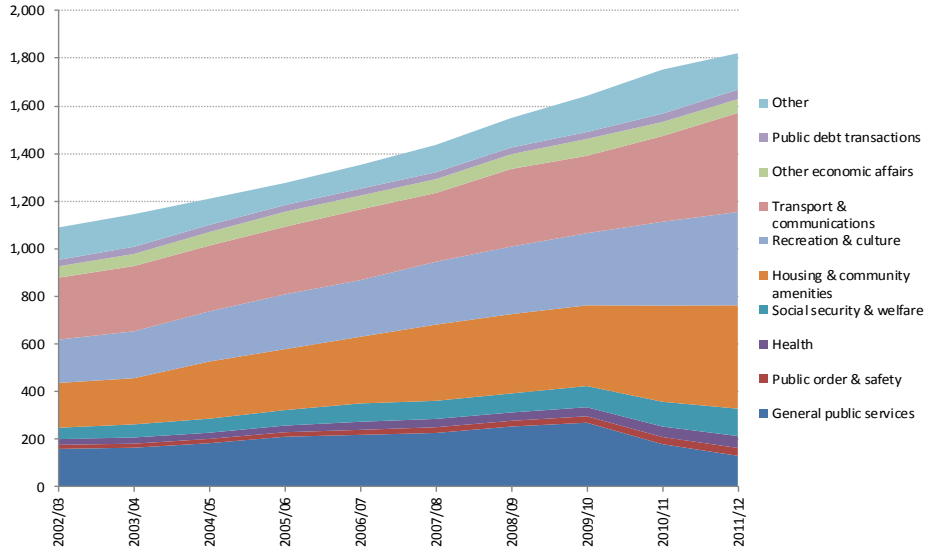
Figure 4.4 sets out capital spending by state/territory and local governments. The data is on a cashflow basis so that grants to fund infrastructure are reported in the year in which the grant was received, rather than being booked as the infrastructure is depreciated. The scale of impact of the Commonwealth Government's stimulus funding directed through the states and territories can be seen in the sharp deviation away from trend after 2007/08, with grants beginning to fall back towards trend again after 2010/11 as stimulus projects wind down.

Figure 4.2: 2010/11 State and Local Government Expenses by Purpose - All Items, South Australia and Australia



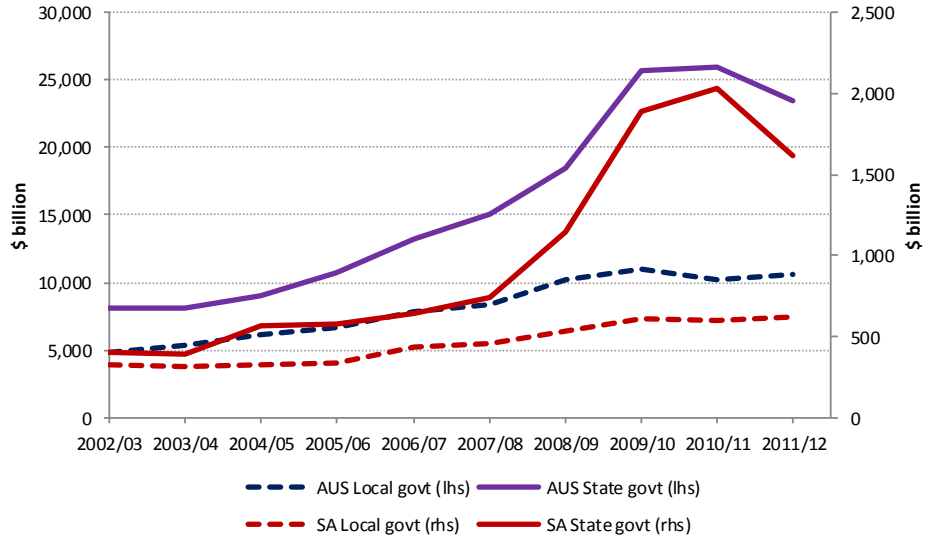
Source: ABS (2013), *Government Finance Statistics.*

Figure 4.3: South Australian Local Government Expenses Over Time, $million



Source: ABS (2013), *Government Finance Statistics.*

Figure 4.4: Gross fixed capital formation, state and local government, Australia and South Australia, $'billion



Source: ABS (2013), *Government Finance Statistics.*

Over the period 2002/03 to 2006/07 local governments accounted for an average of 39 per cent of non-Commonwealth (gross) infrastructure spending, however only $1 billion of the $27 billion of stimulus funding for infrastructure allocated to other levels of government was directed through local governments.

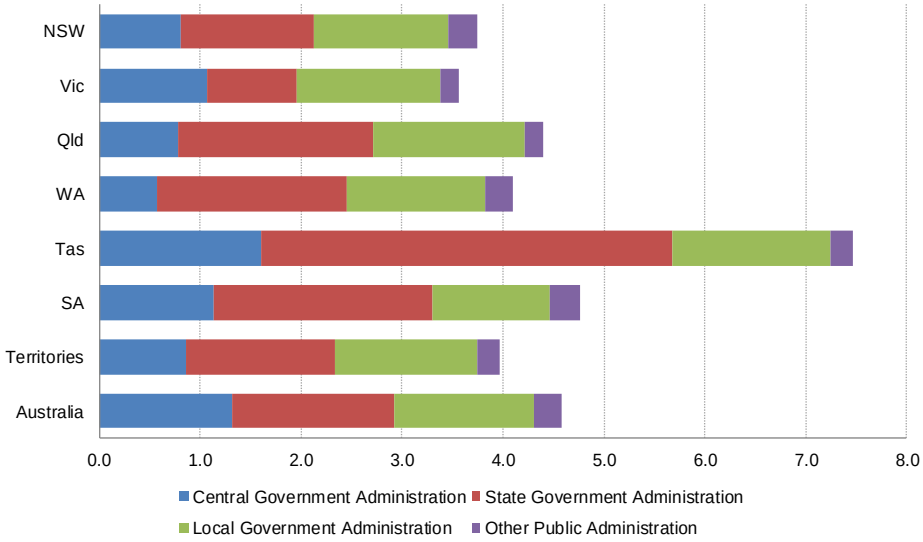
5. Local Government Employment

5.1 South Australia's 'Public Administration' Sector

In 2011, South Australia's public administration sector[4] employed 34,200 persons, accounting for 4.8 per cent of total employment, a share that was slightly above the national average and second only to that of Tasmania (7.5 per cent of employment) (Figure 5.1).

South Australia's State Government administration employs 15,500 persons, nearly half of those employed in public administration. Compared to other States, South Australia's State government administration is a relatively larger employer, accounting for 2.2 per cent of total employment in South Australia. Local government in South Australia in contrast accounts for a (slightly) below average share of employment.

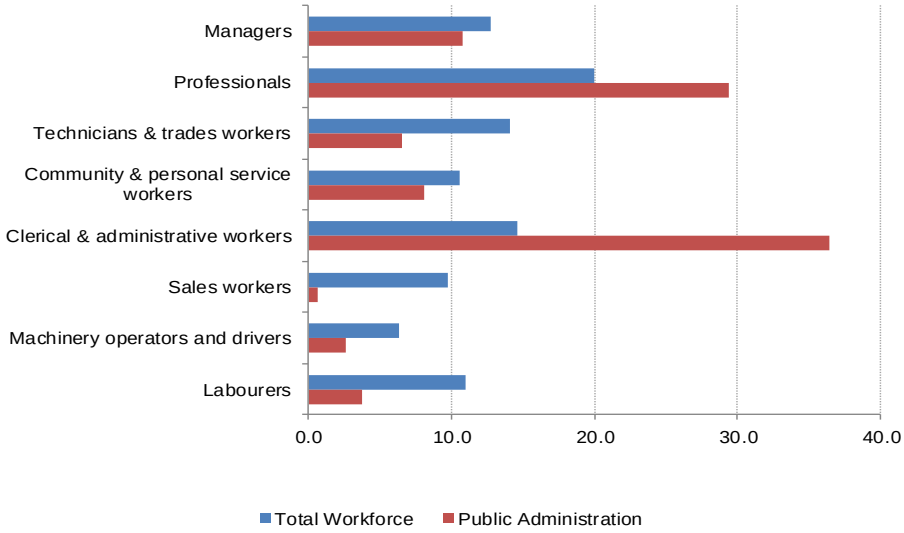
Figure 5.1: Public Administration Employment by States
States, Australia - Per cent of state employment



Source: ABS (2012), 2011 Census Table Builder Database.

Employment in public administration is disproportionately 'clerical and administrative workers' (36 per cent of public administration employees) and 'professionals' (30 per cent) (Figure 5.2).

Figure 5.2: Public administration and total employment by occupation groups, South Australia, per cent of total[(a)]



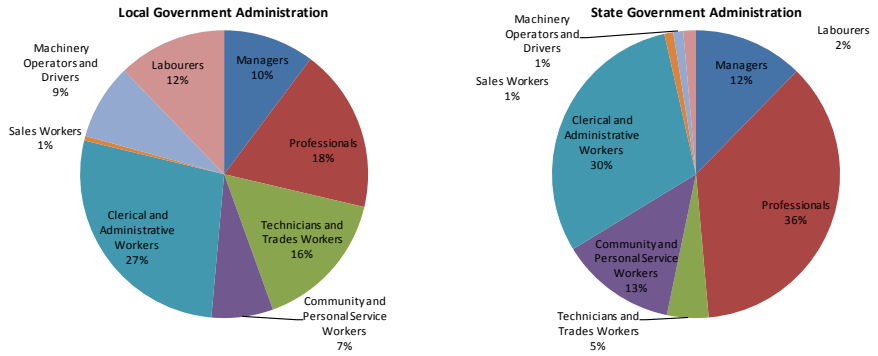
Notes: [(a)] Total includes 'Not stated' and 'Not Applicable'.
Source: ABS (2012), 2011 Census Table Builder Database.

5.2 Local Government Employment

Local government differs in its occupation patterns from state government administration in South Australia (Figure 5.3). Although a similar proportion of their employees are 'Clerical and administrative workers' there is much greater employment of technicians and trades workers (16 per cent of total employment compared to 5 per cent) and 'Labourers' (12 per cent compared to 2 per cent) and fewer 'professionals' (18 per cent

compared to 36 per cent) and 'Community and personal service workers' (7 per cent compared to 13 per cent).

Figure 5.3: State and local government administration employment by broad occupation, South Australia, per cent of total[(a)]



Notes: [(a)] Total includes Not stated and Not Applicable.
Source: ABS (2012), 2011 Census Table Builder Database.

Differences are even more apparent when broad occupation categories are disaggregated. For example, whilst the shares of employees who are 'Clerical and administrative workers' is broadly similar between local and state government administration in South Australia (27 per cent and 30 per cent respectively), only 4 per cent of local government administration employees are 'office managers and program administrators' compared to 8.0 per cent of State Government administration employees.

Comparing across jurisdictions, local government is the only level of government in South Australia that employs a smaller share of the workforce than the national average. Despite South Australia's local government's being proportionately smaller in size, it has a similar occupation distribution to local government in other jurisdictions.

5.3 Employment of Skills Relevant to Infrastructure Projects

As discussed in Chapter 3, the Building the Education Revolution Implementation Taskforce, identified the loss of the skills needed to manage infrastructure projects as one of the important factors explaining the relatively poor delivery of BER P21 projects by some States and Territories. Table 5.1 reports employment (both in absolute numbers and as a share of the relevant workforce) in occupations which play an important role in planning and managing the delivery of stimulus projects.

Local government appears to be well endowed with the technical skills required to deliver infrastructure programs. Local and state government administrations have a similar share of their employees working as construction managers, surveyors, and civil engineers. Local governments also have a significantly higher share of their workforce employed in certain other key occupations such as Engineering managers, Architects, urban and regional planners, and civil engineering draftspersons and technicians.

Table 5.1: Employment in selected infrastructure investment management related occupations, numbers and per cent of total employment[a]

	Australian Government		SA State Government		SA Local Government		Other State Government		Other Local Government	
	Number	Per cent of total	Number	Per cent of total	Number	Per cent of total	Number	Per cent of total	Number	Per cent of total
Policy & Planning Managers	5,757	4.43	262	1.67	64	0.76	3,250	2.29	765	0.60
Construction Managers	74	0.06	53	0.34	29	0.34	752	0.53	427	0.33
Engineering Managers	67	0.05	31	0.20	31	0.37	229	0.16	578	0.45
Intelligence & Policy Analysts	5,052	3.89	433	2.77	39	0.46	4,299	3.03	292	0.23
Architects, Designers, Planners & Surveyors nfd	26	0.02	4	0.03	4	0.05	44	0.03	42	0.03
Architects & Landscape Architects	18	0.01	20	0.13	22	0.26	139	0.10	342	0.27
Surveyors & Spatial Scientists	245	0.19	81	0.52	38	0.45	1,075	0.76	781	0.61
Urban & Regional Planners	42	0.03	91	0.58	293	3.46	1,276	0.90	4,107	3.20
Civil Engineering Professionals	38	0.03	145	0.93	88	1.04	1,327	0.93	2,450	1.91
Building & Engineering Technicians nfd	23	0.02	4	0.03	8	0.09	70	0.05	172	0.13
Architectural, Building & Surveying Technicians	75	0.06	40	0.26	149	1.76	526	0.37	2,229	1.74
Civil Engineering Draftspersons & Technicians	14	0.01	52	0.33	65	0.77	458	0.32	1,090	0.85
Contract, Program & Project Administrators	8,297	6.39	1011	6.46	254	3.00	9,808	6.91	4,277	3.34

Notes: [(a)] Total includes Not stated and Not Applicable.
Source: ABS (2012), 2011 Census Table Builder Database.

The key gaps for local government seem to be in area of policy development, e.g. 'Policy and planning managers', 'Intelligence & Policy Analysts' and 'Contract, Program & Project Administrators'. It does not 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 infrastructure projects for the 'block grant' funding programs run as part 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 to have "ready and waiting" a short list of additional priority projects (or 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

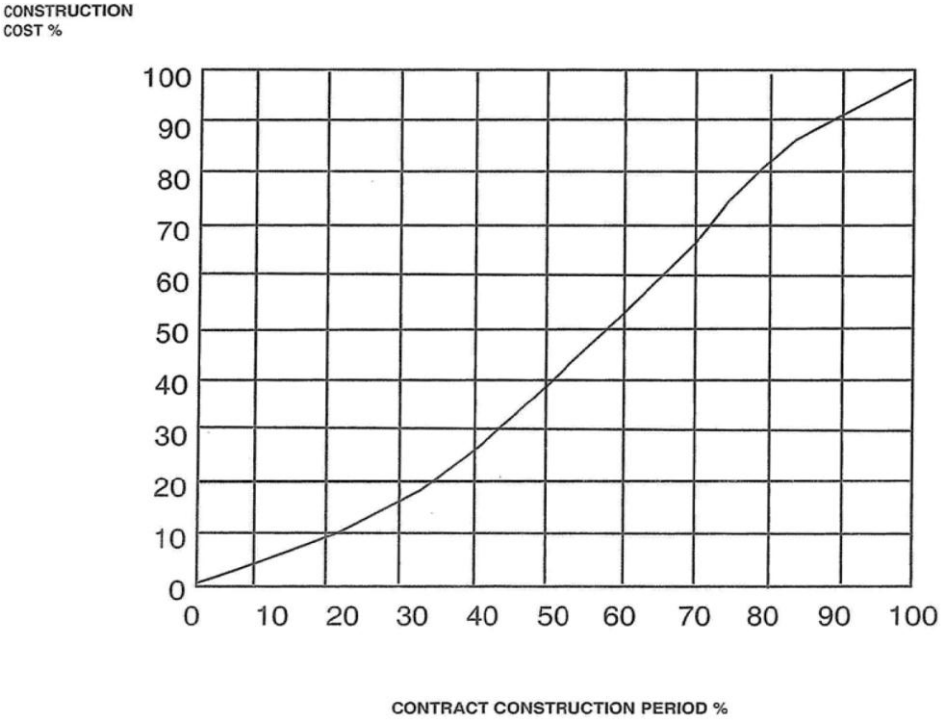
Planned timing of expenditure needs to be based on past experience

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 tends to follow an 's-shaped' distribution (ANAO, 2010, see Figure 6.1) and, with project start dates clustered due to the constrained timeframe, the overall expenditures for many of the programs also follow this distribution. This needs to be incorporated in the assumptions made about the timing of expenditures.

It was notable that much of the failure of programs funded under the various tranches of the response to the GFC to meet their spending trajectories seems to have arisen from excessively optimistic assumptions about the speed with which contracts could be written and projects could commence. Program plans also tended to assume that expenditures would follow a logarithmic curve over time, e.g. strong initial growth with the majority of expenditure completed by the halfway point of the program (see, for example, Figure 3.3 illustrating planned and actual activity under the BER P21 program).

Figure 6.1: Expected trajectory of expenditure on construction projects



Source: Rawlinson's Australian Construction Handbook, quoted in ANAO 2010b, p.222.

Funders and recipients have different priorities

There was also an, understandable, disconnect between the funding body (the Australian Treasury) and the recipients of funding. The Australian Treasury's objective was that the stimulus be as effective as possible in minimising the effects of the GFC on the Australian economy and population. This required that stimulus funds be spent rapidly so their impact was felt during the downturn in demand caused by the GFC (and so that the peak impact of the stimulus occurred during the expected peak impact of the GFC on domestic demand). For funded organisations the priority was to ensure that the infrastructure developed met their long term needs and delivered value for money, even if this meant that the planning or construction phases of the project took longer than required by the program guidelines.

Development of new funding mechanisms is difficult

Another important lesson was that Australian Government Departments appear to have difficulty in developing new funding streams under tight time constraints. The programs whose administration ran smoothly represented larger (or more widely applied) versions of programs the Department already funded. For example, DEEWR had extensive experience in funding capital works in schools, and so the BER program was administered smoothly. The Department of Environment, Water Heritage and the Arts had no experience in funding homeowner's energy efficiency improvements, or in managing construction risks at the household level, and the delivery of the program, and management of its risks was compromised.

In particular, funding streams where bids are solicited can be very problematic in the context of the tight timelines required for stimulus projects to be effective, as the following steps need to take place before funding can be disbursed:

- program guidelines and project selection criteria need to be developed;
- applicants need to prepare bids;
- the funding Department needs to assess the bids received; and
- project agreements need to be drafted and signed.

This means that there are significant advantages to using established funding streams, particularly those which allocate funding based on some a-priori formula (e.g. per capita, needs based etc.).

Australian Government Departments often lack local knowledge

It was also clear that Australian Government Departments can lack important local knowledge. E.g. the Department of Environment, Water, Heritage and the Arts understood and could communicate the advantages of improving the energy efficiency of Australian houses through insulation, but were not aware that (with the exception of South Australia) the industry was both inherently dangerous and largely unregulated, with all of the risks that arose from this.

Management capacity of funded body is critical

The ability of the funded body to manage the delivery of projects is also critical to the success of programs. For example, an important reason identified by the Building the Education Revolution Implementation Taskforce for the significant underperformance (in terms of the quality of the final product) of projects delivered in state schools in Victoria and New South Wales was the lack of relevant technical and project management capacity in the bureaucracy which led them to outsource the project management functions, without even the capacity/capability to be an 'informed client' for this outsourcing.

Local government performance was mixed

While council's performance in delivering programs under the economic stimulus was mixed, local government as a whole is well endowed with the technical skills (e.g. engineering, architects, planners) to deliver infrastructure projects. Where pre-existing funding relationships existed (e.g. roads to recovery) or where funding was allocated on a 'needs' basis or per capita basis, they generally performed well. Where such relationships did not exist, or where the funding scheme was based on competitive tendering, local governments tended to perform less (although no worse than many programs delivered through state governments), in part due to the difficulty of preparing compliant bids for contestable funding rounds in a short timeframe.

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?

Local government's only played a minor role in the delivery of 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 smaller policy and project management teams appear to be less well placed to deal with rapid expansions of funding.

It is important to note that the ***scale of Commonwealth stimulus spending*** was significantly higher than the scale of local government capital spending, e.g. $30 billion over three years compared to annual expenditure by local governments of roughly $10.5 billion. Obviously in delivery of stimulus projects the critical constraint is the capacity to manage the delivery (e.g. writing tenders, assessing bids, managing delivery; or alternatively management of internal resources including recruiting and managing additional (temporary) staff. The capacity of local government to deliver needs to be seen in the context of the available resources and the timeframe.

The two most obvious limitations of local governments in terms of their expanding the range of services they deliver, is the relatively small size of local governments and the range of existing services they deliver.

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.

References

Australian Bureau of Statistics (2012), 2011 Census of Population and Housing, Table Builder Database.

Australian Bureau of Statistics (2013), Government Financial Statistics, cat . no. 5512.0.

Australian National Audit Office (ANAO) (2010a), Audit Report No.33 2009–10, Building the Education Revolution—Primary Schools for the 21st Century.

_____ (2010b) Audit Report No.3 2010–11, The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program.

_____ (2010c) Audit Report No.12 2010–11, Home Insulation Program.

_____ (2010d) Audit Report No.31 2009-10, Management of the AusLink Roads to Recovery Program.

_____ (2011), Audit Report No.42 2010–11, The Establishment, Implementation and Administration of the Council Allocation Component of the Regional and Local Community Infrastructure Program.

_____ (2012), Audit Report No.27 2011–12 Establishment, Implementation and Administration of the Bike Paths Component of the Local Jobs Stream of the Jobs Fund.

Gruen, D (2009), The Return of Fiscal Policy: Speech to the Australian Business Economists Annual Forecasting Conference, 8 December 2009.

Hawke, A. (2010), Review of the Administration of the Home Insulation Program.

International Monetary Fund (IMF) (2013), World Economic Outlook, April 2013, downloaded: 21 May 2013.

Kennedy, S. (2009), Australia's Response to the Global Financial Crisis: A Speech to the Australia Israel Leadership Forum.

KPMG (2012), Social Housing Initiative Review.

McDonald, T. and S. Morling (2012a), The Australian economy and the global downturn Part 1: Reasons for resilience.

McDonald, T. and S. Morling (2012b), The Australian economy and the global downturn Part 1: The Key Quarters.

Orgill, B., D. Chandler, and A. Buchan (2011), Building the Education Revolution Implementation Taskforce: Final Report.

Treasury (2009), Treasury Briefing Paper for the Senate Inquiry into the Economic Stimulus Package.

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.