Municipal Association of Victoria

Inquiry into local economic development initiatives in Victoria

MAV Submission

September 2012
This document has been prepared by the Municipal Association of Victoria (MAV) in response to the Parliamentary Inquiry on local economic development initiatives in Victoria.

The MAV is the statutory peak body for local government in Victoria, representing all 79 municipal councils within the state.

This submission has been prepared by the MAV on behalf of councils. While this submission aims to broadly reflect the views of local government in Victoria, it does not purport to reflect the views of every individual council, who may also make individual submissions.

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1 Summary

The Municipal Association of Victoria (MAV) and councils welcome the opportunity to make a submission to the Parliamentary Inquiry into local economic development initiatives in Victoria (the Inquiry). The MAV has responded to all of the items listed in the Inquiry terms of reference.

The MAV is the statutory peak body for local government in Victoria. This submission is part of the MAV’s ongoing commitment to support the various roles performed by local government that contribute towards the infrastructure and economic development needs of Victoria, including as: (1) the Local Government Authority; (2) the Responsible Authority and Planning Authority; (3) the Road Management Authority; (4) a provider infrastructure; (5) a provider of civic and community services; and (6) various other roles of managing public land, assets and facilities.

Councils contribute to economic development of their communities in many direct and indirect ways: directly through economic development strategies; and indirectly with the provision of infrastructure.

Direct contribution

Many councils have created economic development strategies for their municipality, or in conjunction with bordering municipalities. These strategies support business and encourage the development of local expertise by promoting industrial clusters, supporting development of mixed use precincts and providing supporting infrastructure. A number of councils also work actively through local traders, markets and main street programs.

Indirect contribution

Councils’ provision of infrastructure, particularly roads, is a critical indirect input into economic activity. Businesses are naturally drawn to areas which are well served by government infrastructure and services.

The focus of this submission

This MAV submission will focus on the role of infrastructure in promoting economic development. Unequal access to infrastructure and facilities across metropolitan Melbourne and Victoria causes significant economic impacts.

The provision of adequate infrastructure to support economic development should be a particular focus of the inquiry. It is critical that infrastructure be improved and augmented in line with population growth, to create more economic opportunities overall and particularly more local employment opportunities.

Victorian councils collectively manage over $60 billion worth of assets including roads, bridges, drains, town halls, recreation and leisure facilities, community service facilities, libraries and parks. The construction, maintenance and upgrade of council infrastructure is necessary for economic development as well as the provision of welfare and community services, environment services and general public services demanded by communities, and on which councils spend over $5.5 billion annually.
2 Recommendations

**Recommendation 1:** The Inquiry is strongly advised to consider the work of Regional Cities Victorian and Rural Councils Victoria. These organisations represent the collective interests of regional cities and rural councils respectively. Both organisations are heavily involved in local economic development initiatives. Rural Councils Victoria is currently conducting analysis of regional economic development initiatives across Victoria’s 38 rural councils. This analysis will be available in October 2012.

**Recommendation 2:** The State Government should create a statutory obligation for an adequately funded, long-term State Infrastructure Plan to underpin economic development.

**Recommendation 3:** Grants for the construction and maintenance of local government infrastructure such as local roads should be apportioned according to need. Grant funding should not be exclusively based measures such as population, total road length or CPI.

3 Discussion

3.1 Examine the range of existing local economic development programs being carried out in Victorian municipalities

Councils have limited capacity to significantly influence business activity unless they work cooperatively. This can be done regionally, with industry groups and the community, at a sectoral level, and with other levels of government.

Many councils have created economic development strategies for their municipality, or in conjunction with bordering municipalities. These strategies support business and encourage the development of local expertise by promoting industrial clusters, supporting development of mixed use precincts and providing supporting infrastructure. A number of councils also work actively through local traders, markets and main street programs.

Examples include the *Regional Cities Victoria, Rural Councils Victoria, Western Region Employment and Industrial Development Strategy, The Green Triangle Regional Freight Action Plan* and the *South East Melbourne Innovation Precinct (SEMIP)* where councils partner to develop major land-use projects, transport infrastructure and ensure appropriate commercial and industrial land release.

Regional Cities Victoria has created a policy platform for the growth and economic development of regional cities including: transport infrastructure, high speed internet, skills development, lifestyle and land-use planning.

The Rural Councils Victoria submission to this inquiry provides a number of examples of specific programs that aim to improve regional economic development, including an analysis of existing local economic development initiatives across Victoria’s 38 rural councils. The Inquiry is strongly advised to consider the outcomes of this analysis, which will be available in October 2012 and supplements previous research in 2007 and 2011.
3.2 Examine the appropriate role of local government in generating economic development and review the allocation of responsibility in this area with the State Government

A critical role of all levels of government in generating economic development is to provide infrastructure, particularly transport infrastructure.

A 2004 World Bank study “The effects of infrastructure development on growth and income distribution” (pdf) concluded that economic growth is a direct function of infrastructure investment. Furthermore, income inequality declines with higher infrastructure quantity and quality.

Funding and delivering infrastructure

There is a fundamental link between economic growth and the presence of transport infrastructure which allows access to employment and the movement of freight. The Australian Bureau of Statistics Melbourne Social Atlas 2006 also demonstrates that jobs and services cluster along main rail lines and other major transport infrastructure. Sustained under-investment in transport infrastructure in many areas has created unequal access to recreation, services and particularly employment.

The recently released Growth Corridor Plans provide an opportunity to jointly plan infrastructure and population growth to maximise economic opportunities. Although the various plans include observations regarding the infrastructure that may be built in particular areas to drive economic development, there is not an adequate revenue stream to fund the identified services and infrastructure and no serious indication they will be delivered within a reasonable timeframe. In the City of Hume alone, the two Corridor Plans identify over $1 billion each of State infrastructure requirements that are neither funded nor committed.

Councils have a statutory requirement to develop and implement five-year forward plans for their capital and maintenance investment in infrastructure. This provides for transparent decision-making processes and builds business and community confidence about delivery. There is currently no State-based planning process which identifies transport infrastructure requirements and establishes a pathway for its delivery.

The State Government’s Growth Areas Infrastructure Charge (GAIC) is a significant funding source for infrastructure in growing suburbs. The GAIC has proven to be an effective way to raise money, but it does not necessarily result in optimal infrastructure outcomes. The funds are often not spent in the area from which they originated and expenditure can be deferred well into the future. These issues combine to reduce confidence in the timing and delivery of state infrastructure and services. Although councils and developers face stringent infrastructure delivery targets under the Precinct Structure Planning (PSP) processes and Developer Contributions, there are no such mechanisms controlling the expenditure of GAIC funds. More stringent mechanisms are required to improve the transparency of the State Government GAIC to ensure funds expenditure occurs in a timely and geographically appropriate fashion.

The delivery of appropriately located and timely infrastructure is a critical factor in driving economic development. It is also a prudent investment to mitigate the long-term social impacts associated with infrastructure delays or under provision.
3.3 Examine whether the role of local government in rural and regional areas has different economic development tasks to that of metropolitan based municipalities

Rural councils’ provision of road infrastructure is arguably their most important input into economic activity. Rural local roads are critical to the movement of Victoria’s freight task and to the economic development of rural areas. As of 2008, road trucks carried 89 per cent of the freight in Victoria by volume (2008 Freight Futures, p13).

Overall, councils are responsible for 85 per cent of the State’s road network. Rural and regional local roads account for over 90 per cent of that figure.

Many rural and regional councils face massive challenges providing a high quality road network to support economic development, without significantly burdening ratepayers. These challenges include:

- Capital costs such as construction and maintenance have increased at 2-3 per cent above CPI (in line with construction, material and wage price movements)
- Some rural councils have a declining population and rate base
- A large percentage of freight traffic originates outside the municipality
- Councils are consistently lobbied by farmer groups for lower rates.

If councils do not continue to increase their local road construction and maintenance spend, the consequences include:

- Declining road standards
- Enforcing a lower speed limit
- Suffering higher crash rates
- Returning a formerly bitumen road to a gravel surface
- Freight companies will face higher vehicle maintenance costs.

Although councils’ infrastructure construction and maintenance costs are augmented by various State and Federal grants – including the Victorian Government Country Roads and Bridges Programs and the Australian Government Roads to Recovery Program – grant apportionment often fails to reflect the true need for funding support among councils. Crude measures such as CPI, road length and population are often used as proxies for need.

The recent Australian Government annual review of Financial Assistance Grants resulted in $24.5 million reduction in grants to Victorian councils due to CPI and population adjustments. For smaller municipalities who rely heavily on federal financial assistance, the funding cut represents almost 5 per cent of their total rate revenue. Such a loss of revenue will make it hard for some smaller shires to deliver all their budgeted capital works during the next year.

Recommendation 2: The State Government should create a statutory obligation for an adequately funded, long-term State Infrastructure Plan to underpin economic development.
3.4 Identify the barriers to local economic development, including compliance costs for business and planning delays, in operating in local municipalities and develop solutions to address these barriers

An analysis of the impact of local government regulation of businesses must consider the intended purpose of the regulatory activity, the outcome experienced and the potential consequences if the regulation were to be removed or reduced. At a time when consideration for the built, social, cultural, economic and natural environments are expected to feature in all of councils’ decision-making processes, it is inevitable for there to be tension between councils seeking to make the ’right’ decision and businesses looking for a quick or favourable decision.

These issues were comprehensively addressed in the MAV’s 2009 submission to the Victorian Auditor General’s Inquiry into Streamlining Local Government Regulation (available [here](#)).

3.5 Examine ways in which municipal councils and the Victorian Government can jointly support local economic development, enhance and promote employment and attract new investment, especially in localities with emerging economic potential

See 3.2 “Examine the appropriate role of local government in generating economic development”.

3.6 Investigate best practice local economic development initiatives relevant to the terms of reference

Due to the short timeframe imposed by Committee, the MAV has been unable to consult widely with member councils. Without such consultation, it is not possible to respond to this element of the inquiry.

**Recommendation 3:** Grants for the construction and maintenance of local government infrastructure such as local roads should be apportioned according to need. Grant funding should not be exclusively based on measures such as population, total road length or CPI.