Sustaining Regions

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Editorial

What Use the States?

The title of this editorial is somewhat provocative, but it reflects the undercurrents within several conferences I have attended recently. In early May I participated in the Federalism and Regionalism Conference in Sydney. This event was organised by AJ Brown of Griffith University and participants were encouraged to think about the structure of government into the future. Interestingly, Ian Gray of Charles Sturt University presented survey data that showed that many Australians in NSW, Queensland and Victoria are willing to entertain the notion of a major restructuring of government, with the possible abolition of the middle tier! While this approach may present itself as somewhat radical, other speakers at the Conference noted that in constitutional terms it is relatively easy to create smaller - more human - states. The idea that we could have three, four or more new states appearing over the next 50 years is somewhat confronting and must lead us to question why Australians - a notoriously conservative people - may favour change.

I would suggest that disaffection with contemporary political processes and the operations of the public sector is one reason change may be on the horizon for Australian government structures. I was recently at a conference organised by the Australian Research Council Research Network in Spatially Integrated Social Sciences (the beautiful acronym of ARCRNSISS) where a common theme amongst speakers and delegates was the difficult relationship between researchers and the public sector. This concern has been mirrored in the papers submitted to the Australasian Housing Researchers Conference (June 19-21 2006, Adelaide) where the single largest group of papers for discussion focus on research/policy linkages. A common theme in many of these discussions and papers is that the academic and research community feels alienated by contemporary government processes which are commonly typified by a risk management approach where governments are seen to close off debates that may challenge their electoral position; tight control of the media and public discourse; a focus on a limited number of issues - law and order, health, education - within a relatively narrow policy discourse; and, the perception that the views and opinions of researchers are not respected.

Academics and researchers, of course, articulate their views through publications, presentations and contributions to the mass media and the views I have outlined above may reflect the leading edge of a broader trend in public sentiment. Voters in rural NSW, for example, may favour the creation of a new State because they are unhappy with the performance of the incumbent State government and deeply cynical about the potential outcomes if there was to be a change in the governing party. In South Australia, the strong showing of Nick Xenophon's No Pokies Party in the upper house of Parliament may also reflect this disaffection.

These are important issues for those of us with an interest in regional development and they are important for two reasons: first, many regional development practitioners, advocates and researchers live in those parts of Australia (such as north east NSW) where the push to develop new structures of government is most commonly expressed. Second, the relatively limited attention given to regional development in Australia by most governments is one outcome of the narrow range of issues contemporary state governments address. We are unlikely to see greater effort directed to the development of our regions until the larger scale agenda of state governments is broadened and a more inclusive approach to public debate is embraced.

Finally, it is worth remembering that Jeff Kennett - the man, who at one stage was to be Premier again, prided himself on being the Premier of Melbourne - but lost office because Steve Bracks secured the non-metropolitan vote.

This issue of *Sustaining Regions* is the second that is to be published fully on-line and it is the first planned for on-line publication. All members of the Editorial Team apologise for the delay in getting the last two issues to the readership, but the change in publication format introduced some significant shifts in our production processes. The shift to a fully on-line journal offers new opportunities for *Sustaining Regions* and I feel that it is important for a new Editor - with a new vision - to take up that opportunity. By the end of the next issue *Sustaining Regions* will have been in production for five years and prior to that I was Editor of *Regional Policy and Practice* for two years (with my good colleague Alaric Maude). For that reason I will stand down as Editor after the next issue of *Sustaining Regions*. The Council of the Australasian Regional Science Association International is already planning what comes next.

Andrew Beer
Editor

Financing Local Government Infrastructure: The Australian Experience

Adrian Beresford-Wylie, Geof Watts and Valentine Thurairaja*

Introduction to the Australian Local Government System

Australia is a federation comprising a federal government (Australian Government), six state governments and three self-governing territories. In the six States and the Northern Territory legislation provides the framework for the roles and operations of local government. Local government is an integral part of Australian culture and society and its formation dates from the early years of formal governance in Australia. There is no longer a traditional definition of 'core' local government services such as 'roads, rates and rubbish'. Australian local government in the twenty first century delivers a greater range of services, broadening its focus from 'hard' infrastructure provision to include spending on social services such as health, welfare, safety and community amenities. It has roles in governance, advocacy, service delivery, land use planning, community development, regulation and business development.

Unlike local governments in many other member countries of the Organization for Economic Cooperation and Development (OECD), including the United Kingdom, the United States of America and Canada, Australian local governments do not have primary responsibility for services such as health (hospitals), education, policing, fire services and public housing. These responsibilities usually lie with States and Territories. Local government is increasingly taking on more responsibility for social, health and environmental functions with increasing calls on available funding.

The local government administrative structure is complex. Local government has a small but significant role in the Australian economy, with local government expenditure around $17.6 billion in 2002-03, representing 2.3 per cent of gross domestic product (GDP). Local Government has an annual revenue of $19 billion, over 85 per cent of which it raises itself. Two-thirds of the remainder comes from grants from the Australian Government.

The Australian Government has recognised that the national interest is served through improving local governments' capacity to deliver services to all Australians, while also enhancing the performance and efficiency of the sector. The Australian Government uses the *Local Government (Financial Assistance) Act 1995* as the primary means to achieve these goals. The reliance on government grants varies between local governments, and generally increases with remoteness. Urban

* The views presented in this paper are those of the authors and are not necessarily those of the Department of Transport and Regional Services (DOTARS) or the Australian Government.

Adrian Beresford-Wylie, then General Manager - Local Government and Natural Disaster Relief Branch, Australian Government Department of Transport and Regional Services (DOTARS), Canberra, Australia made a presentation to the Commonwealth Local Government Forum (CLGF) Asia- Pacific Regional Symposium, Kuala Lumpur, Malaysia 11-14 July 2005. This is an updated version of this presentation. He is now CEO of the Australian Local Government Association.

Geof Watts was formerly a Director in the Local Government Section of DOTARS and is currently with the Commonwealth Grants Commission (CGC), Canberra.

Valentine Thurairaja is currently an Assistant Director in the Local Government Section of DOTARS.

councils tend to have least reliance on government grants, and some rural and remote councils derive more than 50 per cent of revenue from government grants. This reflects relative revenue-rasing capacity, the cost of providing services and the principles underpinning the distribution of the financial assistance grants.

Scope for Private Sector Involvement In Local Government Infrastructure

Australian local government plans, develops and maintains key infrastructure for its communities. It provides and maintains infrastructure such as local roads, bridges, footpaths, regional aerodromes, water and sewerage (in some States such as Queensland, regional New South Wales and Tasmania), stormwater drainage, waste disposal and public buildings, parks and recreational facilities. It also has planning responsibilities that affect provision of infrastructure.

Despite significant spending estimated at around $4 billion dollars annually by local government on constructing, improving and maintaining its assets, there is still a gap between the public's expectations about the quality and variety of local government assets available and local government's capacity to meet these expectations. For example, in 2001-02, local government had a local road expenditure deficit estimated at about $400 million.

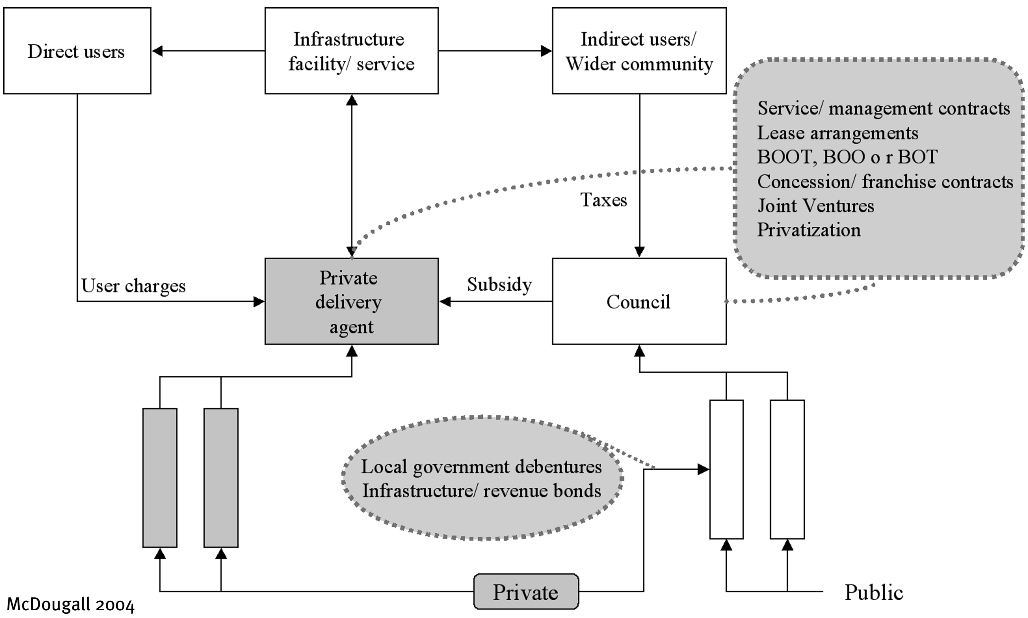
Since the Australian Government and State grants are unlikely to increase significantly in the short to medium terms, local government may look toward alternative sources of funding such as leveraging private sector funds to finance more of its infrastructure.

Public Private Partnerships (PPP) is a general term covering any contractual relationship between public and private sectors to produce an asset or deliver a service but this may represent a range of public-private infrastructure delivery options as reflected in Table 1 (opposite).

Indirect private sector infrastructure financing usually takes the form of local government infrastructure bonds or debentures. They are issued in capital markets, usually via a State underwritten borrowing authority (e.g. Queensland Treasury Corporation) and operate as typical debt instruments.

'Direct' private sector infrastructure financing revolves around the rights and obligations negotiated in contracts between private operators and Councils. These contracts can take the form of service/management contracts, lease contracts, build operate and invest arrangements (e.g. BOOT, BOO or BOT schemes), concession or franchise agreements, joint ventures or full privatisation arrangements. Figure 1 shows how indirect and direct financing arrangements relate to each other and the local government involved.

Figure 1: Local Government Infrastructure Financing and the Role of the Private Sector



Source: McDougall 2004

Table 1: Differentiating Characteristics of Infrastructure Delivery Options

Characteristic	Traditional Public Sector Delivery	Traditional Public Contracting	Service/ Management Contracts	Lease Contracts	BOO, BOOT or BOT Schemes	Concession or Franchisee Agreements	Joint Ventures	Full Privatisation
Infrastructure Ownership	Public	Public	Public	Public	Public	Public	Joint	Private
Contract Duration	Not applicable	Once off	5 to 10 years	Up to 30 years	20 to 30 years	20 to 30 years	Permanent	Permanent
Basis for Private Sector Compensation (All are performance based)	Not applicable	Agreed contract fee	Agreed contract fee	Unit cost plus margin (linked to estimated demand at contract inception)	Public sector guarantees to purchase a minimum level of output (based on unit cost of delivery)	Similar to lease of BOOT contracts	Market driven (with regulation)	Market driven (with regulation)
Revenue Collection Responsibility (inc. invoicing and collection)	Public	Public	Public	Public (some private)	Public	Private	Joint	Private
Capital Investment Responsibility (inc. initial, upgrade and service expansion investment)	Public	Public	Public	Public (Private operator funds capital maintenance expenditure	Private operator (Public sector funds service expansion expenditure)	Private	Public and Private	Private
Recurrent Expenditure Responsibility	Public	Public	Private	Private	Private	Private	Public and Private	Private
Commercial Risks								
• Construction	Public	Private	Private	Private	Private	Private	Private	Private
• Operation (Cost)	Public	Not applicable	Public	Private	Private	Private	Public and Private	Private
• Market (Revenue)	Public	Public	Public	Private	Shared (guaranteed minimum custom)	Private	Public and Private	Private
Non-commercial Risks	Public	Public	Public	Public	Public	Public	Joint	Private
Sectors where Most Appropriate			Low willingness to pay	Where limited capacity expansion required	Where new facilities are required (e.g. toll roads)	Networked based infrastructure (e.g. water)	Where private capital is required immediately	Where competitive structures can be unbundled

Source: McDougall 2004

Direct Private Sector Financing: The Differentiating Factors

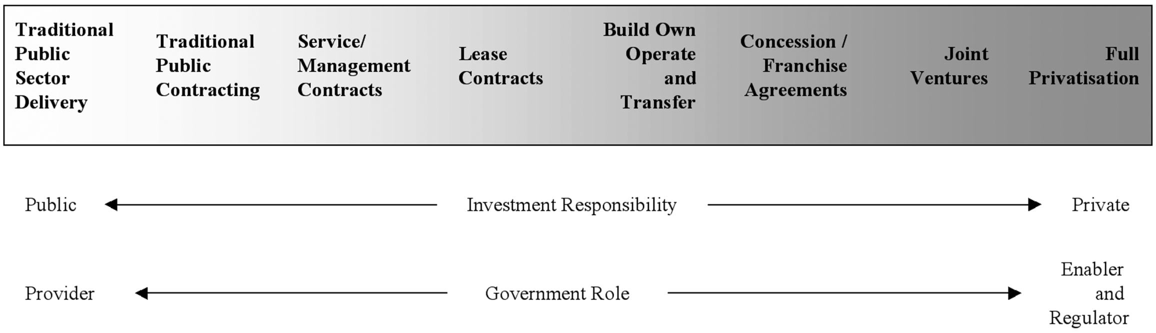
Each of the aforementioned methods of direct private sector financing of local government infrastructure involves a discussion of risks between the private sector and the local authority. In terms of local government infrastructure investment these risks can be categorised as being either:

- Commercial risks: cost overruns in construction and operations or uncertainties surrounding the demand for infrastructure services (market risk), amongst others; or
- Non-commercial risks (specifically policy risks), which cover any adverse conditions that are imposed on infrastructure operation because of changes in the regulatory, legal or economic policy framework.

Apart from the allocation of risks between the private sector and councils, the various direct financing forms can be distinguished by the defined responsibility for ongoing investment and the role of government.

Figure 2 uses these two variables to draw up a continuum of infrastructure financing, with traditional public sector delivery and full privatisation at respective ends of the continuum.

Figure 2: Continuum of Public/Private Sector Financing of Infrastructure Delivery



Extent of Private Sector Financing in Local Government Infrastructure

The Australian Government's Department of Transport and Regional Services (DOTARS) commissioned a survey in February/March 2002 of local government to assess the current use of private sector financing of local government infrastructure and to identify impediments to their expanded use. The survey was undertaken by SGS Economic and Planning (McDougall 2004).

The survey instrument identified the following key PPP arrangements: Management Contracts; Lease Contracts; Build, Own, Operate and Transfer BOOT (BOO or BOT) Schemes; Franchise/Concession Agreements; and Complete Privatisation arrangements and then asked:

- Which of these options were currently used?
- How the characteristics of the infrastructure financing options used differed from the descriptions given (aiming to identify 'innovative' financing methods)?
- How successful each option used was in meeting Council expectations? - In general? In lowering the cost of Infrastructure delivery? In improving the quality of infrastructure delivery?: and
- What were the difficulties in using private sector financing options and how were these difficulties overcome?

The survey was completed and returned by a total of 132 councils representing around 19 per cent of local governments in Australia. Responses from metropolitan and regional councils represented 25 per cent and 18 per cent respectively.

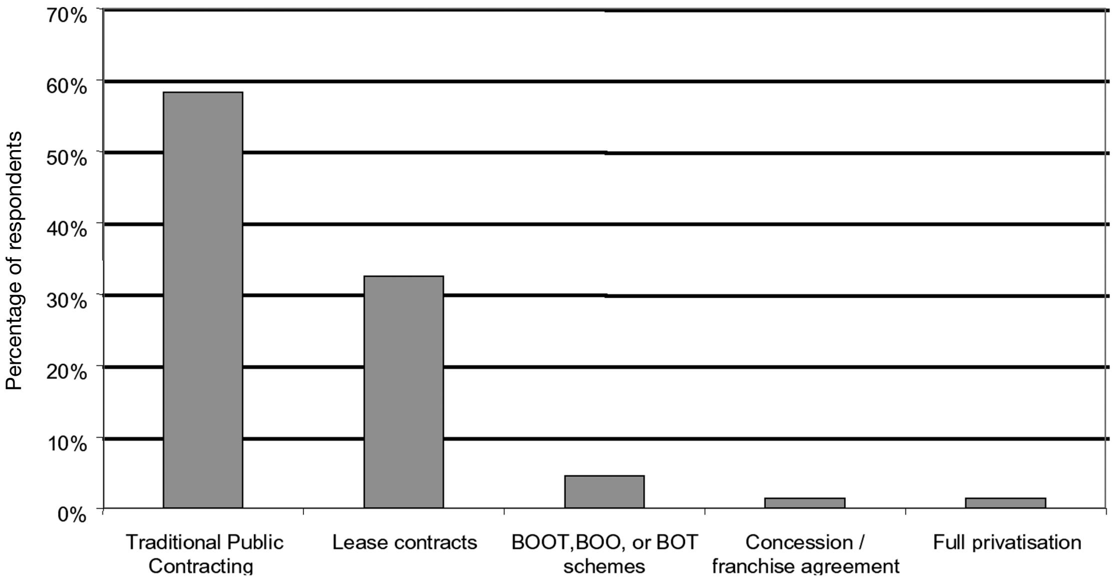
Use of the private sector financing options presented was apparent in two thirds of the local governments surveyed. This figure falls to 40 per cent if Service/Management Contracts are removed from the analysis.

The exclusion of Service/Management Contracts is necessary, as the survey responses suggest that these were overwhelmingly composed of traditional public sector contracting arrangements (outsourcing), including a multitude of design contracts, construction contracts, design and construct contracts, infrastructure maintenance contracts and various others that do not transfer responsibility for recurrent expenditure to the private sector. (Figure 3)

The results suggest that regional local governments are just as likely as metropolitan local governments to use private sector financing options, albeit largely limited to traditional public outsourcing on both counts. There were too few respondents that utilised the more intensive styles of private sector infrastructure financing, i.e. BOOTs, BOOs or BOTs, concession and franchise agreements and full privatisation, to make any sensible comparisons of local government traits.

It is fair to say that based on the survey response, apart from lease contracts or service management contracts there were only a very limited number of true 'risk sharing' relationships between Local Government and private investors in the provision of Local Government infrastructure.

Figure 3: Private Sector Involvement in Local Government Infrastructure



Source: McDougall 2004

Infrastructure Categories Financed

When categorised via infrastructure type, private sector financing is more prevalent in infrastructure items that can be separately identified and managed, such as a recreation centres. This reflects the ease of outsourcing management responsibilities for discrete infrastructure components.

Recreation facilities are the only category of infrastructure that is readily distinguished as a prime candidate for private sector financing. To a lesser extent some stand-alone cultural, civic and library facilities could also be private financing candidates. The usual financing option utilised for these infrastructure components is a lease contract as highlighted in Table 2 (next page).

Characteristics of Financing Options Used

For the vast majority of cases, the financing models used by Australian local governments by major infrastructure types are given in Table 2. There were only a few instances in which councils opted for different contractual arrangements.

Table 2: Private Sector Financing Arrangements - Financing Option by Infrastructure Category (Number of Responses)

	Road/ Transport	Water and/or Sewerage	Drainage	Recreation facilities	Parks, Gardens and/or Open Space	Cultural, civic and/or library facilities	Electricity/ gas/utilities	Total
Traditional Public Contracting	61	28	44	57	43	41	5	279
Lease	0	1	0	37	7	14	0	59
BOOT, BOO, BOT	2	2	1	2	0	0	0	7
Concession/ Franchise	0	0	0	2	0	1	0	3
Full Privatisation	0	0	0	2	0	0	0	2
Total	63	31	45	100	50	56	5	350

Source: McDougall 2004

Success of Private Infrastructure Financing

Private sector financing was generally perceived as 'successful' by respondents, with some 'very successful'.

In the few instances where private sector financing was viewed as 'unsuccessful' (i.e. below expectations), poor legal advice, poor contract drafting and poor contract management on the Council's part were considered to be the source of most problems (Figure 4).

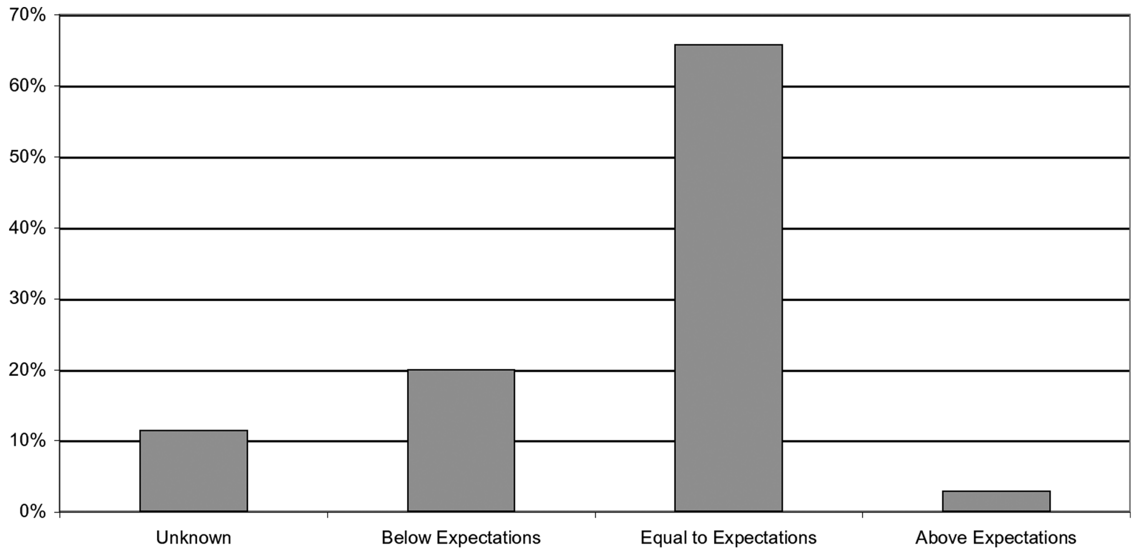
Major Difficulties Faced

The major difficulties faced by local government in using private sector financing options fall into two primary categories:

- the definition of contracts: and

- the perceived lack of private sector interest.

Figure 4: Success of Lease Contracts in Reducing Infrastructure Delivery Costs



Source: McDougall 2004

Contract/Service Definition

Lack of skills on the part of councils in defining contracts is a major concern. Many councils have experienced problems with the private sector that they believe could have been avoided if the original contracts were more thorough. Unfortunately, several councils reported that they lacked the proper skills (or legal advice) to draw up contracts necessary for their needs.

Contract problems usually arose when attempting to accurately define the service/s to be provided or preparing a 'performance based' specification. These problems could be expected to diminish as councils became more experienced in approaching these problems.

Some councils managed to reduce this risk by:

- factoring in an increase in contract management costs before seeking the 'expressions of interest' from the private sector;
- placing increased resources into checking private sector references; and
- aiming for a more collaborative approach to involving private contractors in infrastructure provision.

Some local governments found that reorganising their organisational structure to resemble core infrastructure responsibilities enabled a better integration of the private sector. The ability to make accurate budget forecasts (for performance monitoring) was considered a key outcome from such organisational shifts.

Lack of Private Sector Interest

A large proportion of Australian councils find it difficult to attract private sector financing for infrastructure. This is particularly evident in rural and remote areas. It appears as though the actual dollar size of the infrastructure contracts are, in many cases, insufficient to gain credibility with the private sector given the significant transaction costs associated with developing a PPP.

Few councils can solve these problems on their own. Such problems may be tackled by more collaborative approaches with surrounding local government areas (i.e. bundling up of infrastructure opportunities) and with private sector operators (i.e. working up and capturing the investment opportunities).

The study did indicate that there were opportunities in the following areas for partnerships:

- Design and construction activities;
- Build own operate for certain types of infrastructure;
- Long term asset maintenance contracts;
- Private developer contributions in land and housing estate developments.

Impediments to Private Sector Participation in Local Government Infrastructure

In developing a framework to promote greater local government participation in PPPs a number of impediments are recognised which need to be addressed:

Legal, Guidelines and Procedures

Local councils are instruments of the States and function under Local Government legislation. Studies by the National PPP Forum indicated that in most States there were no statutory instruments applying specifically to Local Government Public Private Partnerships.

The lack of clear guidelines and procedures for local councils to follow in a PPP arrangement has been highlighted as a contributing factor in the Liverpool Council's 'Oasis Project'. An inquiry into the Liverpool Council's (a Sydney metropolitan council in NSW) failed commercial arrangements between 1996 and 2003 for the redevelopment of land at Woodward Park known as the 'Oasis Project' found that a critical element in the failure of the project was the absence of guidelines and regulations setting out procedures to follow (Allens Arthur Robinson 2005, Daly 2004).

As a result of this experience, the NSW State Government has now developed a set of guidelines to govern local government PPPs which is discussed later in this paper.

Lack of Capacity

Many councils lack the skills and capacity to draw up complex infrastructure contracts. For instance, they lacked legal expertise and had insufficient technical skills for appropriate infrastructure project identification, evaluation, negotiation and monitoring. These critical skills were lacking at both elected Councillor and council officer levels.

Lack of Private Sector Interest and Lack of Projects

There is a lack of private sector interest in the current types of projects being identified. High transaction costs, transaction size and geographic remoteness are barriers to greater private sector participation. Councils find it difficult to attract private financing especially in rural and remote areas and there were not sufficient operators to form a competitive market. Inability to bundle small infrastructure projects to make them attractive for private sector financing was also a key barrier. For example, in 2001, the Industry Funds Management (IFM) - a leading funds manager in Australian infrastructure established a dedicated Regional Infrastructure Fund in partnership with the former Victorian Local Authorities Superannuation Board (Vision Super). In 2005, the Regional Infrastructure Fund was dismantled due to a shortage of suitable projects (Weaven 2005). Bulking up projects so that either larger scale units serve greater geographic and population bases or a single contract is let for a series of similar projects across various municipalities and regions have been suggested as viable possibilities. Large scale water treatment, recycling and irrigation programs may also constitute viable options (Weaven 2005).

Tax Disincentives

The private sector perceived some aspects of the leasing sections (section 51 AD and Division 16D) of the Income Tax Assessment Act 1936 as barriers to the greater use of PPPs. In certain situations it is claimed that these leasing sections deny - to the private owner of an asset - tax deductions related to the asset hence reducing the value of the potential value of income from a project.

Risk-Averse

Australian Local Governments have traditionally been risk-averse to debt financing infrastructure. To some extent, this is the result of being dependent on receiving significant annual funding from the Australian and State Governments and to their limited taxing power. However, a 2002 Standard and Poor's survey of 91 major councils in Australia indicated strong credit quality in general, with a spread of credit rating skewed towards higher ratings. Standard and Poor indicated that Local Governments currently have very low levels of debt. In fact, they are net creditors - that is, their borrowings nationally are less than their funds in deposits or on loan (Standard and Poor 2002)

Access to Low Cost or Subsidised Finance

The legislative and institutional context for Local Government borrowings varies between States. In most States - Queensland, Western Australia, South Australia, Tasmania, Northern Territory - Local Governments can access low-cost debt finance through centralised public sector financing authorities. In the other States - New South Wales and Victoria - the centralised financing authority does not raise funds to service Local Government finance requirements.

Emerging Australian, State And Local Government Policy Framework - Public Private Partnership Framework

This section captures some recent initiatives of the Australian, State and Local Governments in encouraging private sector participation in infrastructure financing in Australia.

In recent months, two trends are emerging at the Australian Government and State level and local government levels:

- The Australian Government and some States are taking steps to develop policy incentives and guidelines to encourage private sector financing of local government infrastructure.
- Local Governments are initiating advisory services on financing options, project and risk assessment.

The Australian Government has limited experience in entering into PPPs if the strictest definition of a PPP is applied. It has, however, entered into contracts with the private sector in joint ventures (Defence Housing Accommodation Project in Darwin) and outsourced various Information Technology (IT) projects. However, the Australian Government's role in tax, macro economic and infrastructure funding policies influence infrastructure provision in State and local governments.

While the Australian Government developed and released a policy on PPPs in October 2001 to guide federally funded departments, it has nevertheless taken a cautious approach to this form of procurement, recognising the nature and risk of projects that are suitable for PPPs. This policy focuses on three key principles: value for money, transparency and accountability.

In September 2005, the Australian Government announced that it will initiate changes to the tax treatment in leasing arrangements in PPPs by amending section 51 AD and Division 16D of the Income Tax Assessment Act 1936 discussed earlier. This is expected to remove a tax impediment to the development of local government PPPs.

National PPP Forum

The Australian Government encourages a national approach to PPPs by sharing project experiences with State and Territory jurisdictions. The establishment of the National Public Private Partnerships Forum (NPPF) is an example of this.

The NPPF is an Australian Government-State forum involving the Australian Government's Minister for Finance and Administration and State and Territory ministers responsible for PPPs. A study in 2004 by the NPPF, led by the New South Wales State Treasury, indicated similar results to the earlier SGS study on the scale of local government PPPs. PPP projects undertaken by councils in New South Wales, Victoria and Western Australia were community facilities such a civic centres, sports centres, commercial facilities (such as cinema, retails, hotels, car parks) or multiple use facilities (such as commercial/residential developments). The remainder are largely roads and environmental facilities (such as waste treatment plants).

The National PPP Forum has provided an outline of an action program that could be adopted for greater participation by Local Government in Public Private Partnerships. Key elements are:

- Preparation of Guidance Material for Local Government - a number of guidelines have already been drafted by the Australian Government's Department of Finance and Administration (DOFA) which could be of benefit to local government. (These guidelines are available at www.finance.gov.au)
- Building up a more systematic data base of Public Private Partnership activities across States - this would assist in identifying common elements across States, which could form the core of a national framework for Local Government-Public Private Partnership.
- Development of specific Local Government training or exchange programs - jurisdictions could develop training programs and deliver them to councils. These training programs would be in specific technical areas such as legal issues, infrastructure bundling, accounting and performance reporting.
- Promoting greater use of council forums and meetings to promote coordination opportunities - consideration might be given to developing more systematic ways of actively promoting these forums as avenues of exchanging information, coordination and training opportunities regarding Local Government Public Private Partnerships.

Hawker Report

The recent House of Representatives Parliamentary inquiry in to cost shifting to local government (known as the Hawker Report) made several recommendations impacting on local government infrastructure financing. For example, the report recommended local government consider 'the judicious use of borrowing ... to meet some of its financial needs if it is accompanied by increased revenue to enable the debt to be serviced' (Hawker Report 2003). The Australian Government responded to the Hawker Report in June 2005. (See also further information outlined under Other Potential Initiatives.)

State Government Initiatives

As responsibility for much of Australia's infrastructure rests with each individual State and Territories these governments are likely to be the main users of PPPs. An indicator of the magnitude of this involvement is demonstrated in New South Wales. Over ten years, the contribution of private sector funding to infrastructure provision in New South Wales was equivalent to about seven per cent of the State's capital budget (Webb and Pulle 2002).

The NSW State Government has developed a new regulatory framework for PPP arrangements for local councils. The Local Government Amendment (Public Private Partnerships) Act 2004 commenced on 1 September 2005. Any council in NSW entering into a PPP must now comply with this legislation and a set of guidelines (DLG 2005).

Local Government Initiatives

In recent years, there has been intense interest in developing policies to increase private sector participation in financing for infrastructure by the local government sector in Australia.

In 2004, the Municipal Association of Victoria (MAV) - the peak organisation of 79 local councils in the State of Victoria, commissioned Price Waterhouse Coopers to investigate and assess the feasibility of establishing a central borrowing authority for local government and to look at approaches for addressing infrastructure replacement. The report concluded that there was no unmet demand for funds by councils in Victoria. It also reported that the market for council borrowings was largely competitive and the current level of demand for council finance was being met and that a separate central borrowing facility was not required. The report however, recommended an advisory services for councils be established which could leverage the current competitive market for council financing in Victoria (PWC 2005).

In 2005, the MAV developed a supply agreement with a major international financial consulting firm (Ernst and Young) to provide specialist financial advisory services on infrastructure financing to the 48 non-metropolitan councils in Victoria.

In 2005, the Queensland Local Government Association and the Queensland Treasury Corporation established a new institution - the LG Infrastructure Services (LGIS), to address an emerging need within local government for assistance in evaluating and delivering infrastructure in a cost effective and efficient manner. LGIS assists and facilitates local government infrastructure provision through financial advice and project assessment.

Other Potential Initiatives

In its response to the Hawker Report, the Australian Government recognised the importance of local government authorities having the capacity to raise revenue from their own sources and agreed to ask the Productivity Commission to examine this issue. The Australian Government also recognised that local authorities may wish to make prudent use of borrowing to finance infrastructure investment and that the Minister for Local Government, Territories and Roads would facilitate consultation between key stakeholders, including the State and Territory Governments and local government, on impediments to such prudent borrowing (Australian Government Response 2005).

Local Governments around Australia, especially the ones on the urban fringe could consider PPPs that recover infrastructure costs from private developers. For example, Macquarie Bank's Community Partnerships has been established to undertake property-based Public Private Partnerships with local and State governments.

Conclusion

Overall, significant local government infrastructure funding gaps exist and both Australian and State Government grants will continue to be an important source of finance. Significant interest in PPPs and alternatives to grant funding exist at the local government level. Currently most councils in both regional and metropolitan areas use outsourcing (service or management contracts) as the most common form of private financing with stand alone recreational, civic facilities, commercial facilities (car parks, cinema), water treatment and waste management plants being prime candidates for PPPs.

There does not appear to be a shortage of funds in the capital market available to secure private financing for council infrastructure. However, institutional and economic impediments still exist at the local government level which act as constraints to the enhanced use of PPPs to finance infrastructure. Local government capacity (both at elected councillor and officer levels) appears to be low especially in identifying viable projects and negotiating with the private sector. Local government in Australia is beginning to implement initiatives to build capacity by providing financial and project assessment advice. There is scope for greater involvement in new types of infrastructure if sufficient numbers of projects are bulked up to make them viable and attractive to the private sector. As jurisdictions in Australia gain more experience with PPPs, adhere to PPP guidelines and share information there is potential to improve local government capacity to enter into more complex PPPs.

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Is There a Case for Non-profit Organisations in Regeneration Schemes? The Poatina Experience

David Bunce

Introduction

Over the course of the last century or more many attempts have been made to create sustainable or utopian communities. These usually placed particular emphasis on improved housing conditions and what is now called social capital. In England around the turn of the twentieth century several so-called garden estates and model villages were created. They were built by wealthy Christian businessmen with a social conscience and a desire to improve the lives of working class families. In more recent times, and certainly in Australia over the last two decades, state governments, often in partnership with private developers, have been responsible for driving regeneration projects in areas of place-based disadvantage. Many of these suburbs formerly contained working class communities that were dislodged by structural industrial decline and were replaced largely by a welfare dependent cohort. Accordingly, many regeneration schemes have included job training and community development programs. It is suggested here that it may be time to reconsider the effectiveness of profit driven private developers' participation in training and community objectives. It may be more appropriate to have community-led and non-profit organisations undertake this role. This change could result in more effective job training, more affordable housing and increased volunteerism.

This paper is based on the experience of a small town, Poatina, in Tasmania and it poses the question of whether any of the concepts that have helped in Poatina's regeneration could be applied to regeneration projects elsewhere in Australia. It is largely based on personal observations and discussions that took place during the course of one week spent in the town in early 2006. It is, therefore, essentially a narrative discussion that allows some form of evaluation of the outcomes to be made. Poatina, which is a Tasmanian Aboriginal word meaning a place of shelter or a cave, is located on a plateau in the Great Western Tiers in central Tasmania. It is 170kms north from the State capital, Hobart, and 60 kms southwest of Launceston, Tasmania's second city which has a population of around 66,000 and serves as the regional centre.

Regeneration theory normally stipulates that an intervention is underpinned by objectives set out in State government policy documents, for example a State Strategic Plan or a State Housing Plan. It has been observed that 'housing and the built environment is generally a primary sphere of focus in regeneration, and an initial driver of change' (Rogers and Slowinski 2004, p.15). Urban and rural regeneration usually involves replacing run down and inappropriate public housing stock in areas with high levels of unemployment and welfare dependency. It is replaced with a mixture of new public housing often at a much lower ratio than that which existed previously - generally around 25 per cent - and new privately owned housing developments to create a 'social mix' and to address the broader structural issues of place-based disadvantage (Arthurson 2002). State governments' policies generally are to encourage the provision of affordable housing and expand the diversity of housing choices. Improvements in educational, training and employment outcomes are also used as an indicator of better social conditions.

Social and tenure diversity policies are intended to create more sustainable and vibrant communities. Spiller Gibbons Swan (SGS) (2000, p.17) noted that regeneration schemes have largely been driven by increasing obsolescence of post-war housing stock rather than as a response to intractable social issues. Renewal objectives are often linked to improvements in community pride, health and wellbeing, employment opportunities and investments in job creation. The more the community is involved in a regeneration project the greater the likelihood of its success (Maginn 2004). But it has also been pointed out by many commentators that a 'one size fits all approach' is prone to difficulties particularly when evaluating the success of a project (Judd and Randolph 2001, p.4; Joseph Rowntree Foundation 1998; SGS 2000, pp. i, 30). Although regeneration projects have different objectives and strategies they commonly set out to:

- Address social dysfunction;
- Improve the physical and social environment of the area;
- Offer a wider choice of housing in both the public and private sectors; and
- Diversify tenure mix and dilute the concentration of public housing.

Background to Poatina

Poatina was not a part of any overall objective of public policy intervention by the Tasmanian government. What occurred at Poatina was undertaken by a non-profit organisation without government funding. It is instructive to briefly review the history of Poatina in order that its uniqueness can best be understood and that its suitability to provide any useful concepts or ideas to the regeneration debate can be placed in context.

Plans for the establishment of the township of Poatina began in 1957 when the Tasmanian Government passed a Bill to enable the Hydro-Electric Commission to divert water from the nearby Great Lakes via a six kilometre tunnel drilled through the Great Western Tiers to create Tasmania's first underground power station and the second largest power station in the state. Traditionally, 'The Hydro', as it is known colloquially, had enormous political influence in Tasmanian politics. Since the 1980s, the rise of the Greens and the cancelling of projects such as the Gordon and Franklin River schemes, its influence has waned somewhat. But in the 1950s and 1960s the Hydro-Electric Commission had a budget greater than that of the State government itself. Poatina was a typical product of the 1950s 'long boom' and in common with other hydro-electricity projects such as the iconic Snowy River scheme in New South Wales, a large proportion of workers were post-war migrants who lived in transportable housing or single men's quarters.

The first inhabitants moved into the town in 1959 and Poatina had a population of about 3,000 at its peak in the early 1960s. Working around the clock, the hydro-electric scheme took five years to complete. It was officially opened by the then Prime Minister, Sir Robert Menzies, in 1965. As a result of advances in technology over the following decades, large numbers of workers were no longer required to run the power station and by 1994 only five families remained in Poatina. At this point Poatina was in danger of becoming a 'ghost town' and the Hydro-Electric Commission decided to try to sell the town as a single entity. In 1995 a Christian organisation called Fusion Australia successfully tendered to buy Poatina in order to put into practice the concept of 'vocational rehabilitation' that it had been honing in its metal fabrication workshop which it acquired in rural Victoria in the 1980s.

Practical Christianity

Practical Christianity is not a new concept. For example in 1888 William Lever, a Congregationalist and a successful soap manufacturer, developed Port Sunlight a model community in Cheshire for the benefit of his employees 'in which they will be able to know more about life than they can in a back slum' (Wilson 1954, p. 35). Around the same time other successful businessmen saw Christianity as also meaning the socialisation of wealth. At the turn of the twentieth century, three of these from the Quaker tradition formed charitable Trusts for the 'amelioration of the conditions of the working class and labouring population' as the Bournville Trust Deed expressed it (Williams 1931, p. 220). Joseph Rowntree in York and James Reckitt in Hull, like Cadbury in Birmingham, built garden estates and model villages of better quality houses with affordable rents. But these visionaries also saw, over a century ago, that in order to build a balanced community it was necessary to provide a mixture of housing types for all, not 'tied houses' for only their own employees, or any one particular class of resident (Briggs 1961; Vernon 1958; Williams 1931). Rowntree 'realised from the beginning that more than bricks and mortar go to the building of a new village' (Vernon 1958, p. 150). Their brand of practical Christianity was to formulate community development not bearing the stamp of charity but rather one that would enable 'people to stand on their own feet' (Briggs 1961, p. 96). The focus was, nevertheless, umbilically connected to the Protestant work ethic.

Successful regeneration outcomes can also be obtained from community-led groups. The Eldonians, named after Eldon Street an arterial thoroughfare that ran through the district, created a secular community in Liverpool. The Eldonian Community Based Housing Association (ECBHA), formed in 1983 as the Eldonian Housing Co-op, demonstrated another approach to the creation of a successful regeneration (Eldonian Community nd). The run down area near the Liverpool waterfront, which contained a high proportion of inhabitants descended from Irish Catholic stock, had been targeted for demolition in the 1970s. The community however, wanted to remain together as opposed to being dispersed, the normal outcome of government-led regeneration projects. Led by a dynamic local resident, the Eldonian community succeeded in obtaining £6m in central government funding in 1985 to construct the first phase of a 160 property redevelopment. Whilst nominally secular, the religious heritage of many residents proved to be advantageous. The Catholic Church was reported as being 'influential' in its ability to persuade 'people in high places' of the merits of the Eldonians' scheme and also apparently had the ear of a 'sympathetic Prime Minister' (Lauria, nd). The ECBHA currently rents out 310 properties and manages another 147 on three adjacent sites, and is self-financing.

Fusion Australia emerged as a creative response to socially-at-risk young people in Hornsby, Sydney in 1960. It is a not-for-profit company and is self-described as a trans-denominational national Christian Youth and Community Organisation. Its mission statement is, '*To work with others to create a society where every young Australian has the opportunity to fulfil their God-given potential*'. Fusion created youth cafes and drop-in centres and developed social activities, special education programs and accommodation services. Fusion has developed a national network of 25 centres across Australia and Poatina is its national headquarters. The organisation has an annual turnover of $10m and only accepts government funding where it does not conflict with its ethos. It prefers to rely on volunteer labour, fundraising, donations, corporate goodwill, and its own entrepreneurial activities for finances (Fusion nd).

The Purchase of Poatina

The price that the Hydro-Electric Commission hoped to obtain for Poatina when it was put out to tender in 1994 was $2.5m. There were only two final tenderers, one of which subsequently withdrew leaving Fusion as the sole bidder. As the existing water mains infrastructure in the town had to be replaced within five years at a cost of $525,000, the purchase price negotiated with the Hydro in 1995 was $1.5m plus the cost of the capital works. A business plan was drawn up by Fusion and an approach was made to the Tasmanian government for funding assistance. Despite suggesting that Fusion could save the State government a considerable sum of its youth expenditure budget, the government politely declined to grant any assistance. But after visiting Poatina in 1997 the State government's Minister for Youth said, 'Fusion are doing what we have been talking about. They involve the community. They have business outlets and are training young people. It's integrated' (Poatina's Story 2002).

Two volunteer workers, who had a vision for what Poatina might become, sold their houses in Sydney to enable the initial deposit to be paid to the Hydro-Electric Commission. Fusion formally took possession of the 40 hectares township and 140 hectares of surrounding bushland where the now removed transportable housing and single men's quarters had been located in the 1960s. Poatina comprised six streets and 54 brick houses, a motel, community hall, several business premises, and recreational facilities including a swimming pool and a nine hole golf course. The five families that still lived in Poatina were offered the opportunity to be involved in the proposed new community but declined the offer and subsequently left the town.

As far as is known, what has been attempted at Poatina is unique. The Northern Midlands Council, in whose local government area the town is located, became a great supporter of the Fusion concept for Poatina. The Mayor of the Council at the official opening in June 1995 said, 'Northern Midlands welcomes Fusion to Poatina. It is critical to the well being of so many people that this experiment and this challenge is going to be successful' (Poatina's Story 2002). It is, of course, common for local governments to support regeneration projects. Such