



Australian Local Government Association

2008/2009 Budget Submission

National Objectives Need Local Delivery

January 2008

Dear Treasurer

ALGA Budget Submission 2008/2009

Thank you for the opportunity to provide a submission for the 2008/2009 Federal Budget.

I congratulate you and the Australian Labor Party on your recent electoral success and wish you well in the task of managing Australia's economy.

The Australian Local Government Association (ALGA) recognise the challenges ahead, with anticipated economic growth of 4.25% in 2007/2008 and 3.5% in 2008/2009, continued inflationary pressures and the potential for further uncertainty associated with international financial developments and the state of the global economy.

In determining the 2008/2009 Federal Budget, ALGA acknowledges the importance of meeting the Federal Government's 2007 election commitments within appropriate timeframes, including the education revolution, health and hospital reform, the National Broadband Network and a number of other initiatives of direct relevance to local government. ALGA and local government generally look forward to assisting the Government where possible to deliver these programs.

This submission outlines 5 strategic priorities that local government believes the 2008/2009 Federal Budget should pursue:

1. Delivering on election commitments in a timely manner;
2. Delivering reforms to intergovernmental relations, including:
 - 2.1. Reform to local government general-purpose funding;
 - 2.2. Investment in community and strategic infrastructure through local government;
 - 2.3. Supporting sector-led reform to improve local government financial and asset management capacity; and
 - 2.4. Accelerating COAG Reform;
3. Building-on and extending investment in long term transformational programs to improve national roads and transport systems, Australia's natural resource management, water reform and emergency management;
4. Targeted programs to facilitate streamlining of regulation and process management by local government, including electronic development assessment; and
5. Initiatives at the national and local levels to meet future challenges in the areas of climate change, Indigenous housing and associated services.

Local government appreciates the importance of a continuing strong partnership with the Federal Government and is committed to seeking further opportunities for cooperation. This Budget submission puts forward significant proposals that will improve outcomes at the local level for all Australians.

I am pleased to present you with ALGA's 2008/2009 Federal Budget Submission.

Yours sincerely



Cr Paul Bell AM
President

Summary

ALGA welcomes the Federal Government's commitment to general expenditure restraint while at the same time identifying, as a priority, the need to address capacity constraints to the economy through strategic investment to reduce infrastructure bottlenecks, the education revolution and health reforms. ALGA fully supports these initiatives and looks forward to working with the Government on their implementation.

Federal Treasury's pre-election economic and fiscal outlook anticipates economic growth of 4.25% in 2007/2008 and 3.5% in 2008/2009. While there are reasons to be concerned about continued inflationary pressures and financial volatility associated with the US sub-prime mortgage crisis, the underlying strength of the Australian economy provides significant opportunities to deliver strong national as well as local outcomes.

Local government recognises the importance for the Government of meeting its election commitments in a timely manner. In addition, local government acknowledges the need to continue funding long-term transformational programs focused on national transport systems and natural resource management. Of highest importance to local government, however, is the need to reform local government funding.

ALGA strongly supports the Government's commitment to intergovernmental reform. For many years, local government has argued for fundamental reform to the long-term financial relationship between local government and the Commonwealth. In this context, ALGA strongly believes that local government funding needs to be addressed as part of further changes to Commonwealth-State financial arrangements. ALGA accepts, and fully supports State and Territory entitlement to the Goods and Services Tax (GST) revenue in place of the general-purpose funding grants they formerly received, as established in the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations. Following the negotiation of that Intergovernmental Agreement in 1999, the Commonwealth retained responsibility for providing general-purpose funding to local government through the Financial Assistance Grants (FAGs). However, the level of funding available to local government through this mechanism has not kept pace with the growth of Commonwealth and State (GST) revenue and local government seeks general-purpose funding from the Commonwealth equal to a fixed share of at least 1% of Commonwealth taxation revenue (net of GST).

Research undertaken by Access Economics, PricewaterhouseCoopers (PwC)¹ and National Economics² over the past two years on behalf of State and Territory Local Government Associations and ALGA provides evidence of the increasing financial challenges facing local government. In its national research into the financial sustainability of local government in 2006, PwC estimates that up to 30 per cent of councils are facing severe financial pressures in providing the range of local government services sought by their communities. The inability of local government to provide a reasonably level of local government services to communities throughout Australia should be a matter of concern to all levels of government. While local government appreciates and acknowledges the critical importance of Financial Assistance Grants from the Commonwealth, the relative size of these grants has been declining and they no longer provide a sufficient level of general-purpose funding to allow local government to meet the needs of the communities they serve.

Finally, this submission proposes that the 2008/2009 Federal Budget should as a matter of priority:

- Invest in, and support, a national approach to streamlining local government services and processes to business and the community. This work will build on recent COAG initiatives and findings of the Productivity Commission's current benchmarking of regulation study; and
- Invest in a strong partnership between local government and the Commonwealth to address the impact of climate change and improve the delivery of Indigenous housing and associated infrastructure.

¹ PwC Report – December 2006 available at: www.alga.asn.au

² State of the Regions Reports 2006/2007, 2007/2008 available from the ALGA Website

Summary of Budget Proposals of Particular Importance to Local Government

| INITIATIVES | DESCRIPTION | DEPARTMENT | MINISTER | COST | IMPACT ON FORWARD ESTIMATES |
|---|---|--|-------------------|---------------------------------------|---|
| MEETING KEY ELECTION COMMITMENTS | | | | | |
| Establishment of Infrastructure Australia. | Investment in the development of a strategic blueprint for our nation's infrastructure needs over coming years and facilitating its implementation, in partnership with the States, Territories, local government and the private sector. | Infrastructure, Transport, Regional Development and Local Government | Minister Albanese | As advised by Government | |
| Grain Line Review | The Government committed to a \$3 million review of grain lines during the election campaign. The review has become more urgent with the announcement that Pacific National will be closing or selling its agricultural operations. | Infrastructure, Transport, Regional Development and Local Government | Minister Albanese | As advised by Government | |
| Housing Affordability | \$500 million to assist in the provision of community infrastructure in new developments linked to planning reforms. | Family, Housing, Community Services and Indigenous Affairs | Minister Macklin | As advised by Government | |
| Investment in affordable high-speed Broadband | The National Broadband Network will connect 98 per cent of Australians to high speed broadband internet services – at a speed more than 40 times faster than most current speeds. | Communications, Broadband and the Digital Economy | Minister Conroy | As advised by Government | |
| National Plan to Tackle the Water Crisis | National water security plan for towns and cities including a \$1 billion National Urban Water and Desalination Plan to help secure the water supplies of Australia's major cities. | Climate Change and Water | Minister Wong | As advised by Government | |
| REFORM TO INTERGOVERNMENTAL RELATIONS | | | | | |
| Reform of general-purpose funding to local government | Increase general-purpose funding (FAGs) to at least 1% of Commonwealth taxation revenue (net of Goods and Services Tax). | Infrastructure, Transport, Regional Development and Local Government | Minister Albanese | Additional \$620 million in 2008/2009 | Consequent increase in FAG base funding |

| | DESCRIPTION | DEPARTMENT | MINISTER | COST | IMPACT ON FORWARD ESTIMATES |
|---|--|--|--|--|-------------------------------------|
| Community infrastructure renewal that can enhance social capital and assist in attracting and retaining workers and entrepreneurs into local communities. | Invest at least \$250 million per annum for four years in a Community Infrastructure Renewal Program designed to restore community infrastructure in all local government areas. This program will achieve multiple objectives, including economic development, infrastructure renewal and health where funds are directed toward sporting and leisure facilities to promote physical activity. | Infrastructure, Transport, Regional Development and Local Government | Minister Albanese | \$1 billion over 4 years | \$250 million per annum for 4 years |
| Sector-led reform to strengthen the financial and asset management skills and capacity in local government. | Support sector-led reform to improve local government financial and asset management skills through an investment of \$12.87 million over 4 years. | Infrastructure, Transport, Regional Development and Local Government | Minister Albanese | \$12.87 million over 4 years | \$12.87 million over 4 years |
| Accelerating COAG Reforms | Invest in a revised COAG reform agenda which should include a provision made for payments to the state and local government for incentives, up-front funding for initiatives and dividend sharing. | Prime Minister and Cabinet and Treasury | Prime Minister Kevin Rudd and Treasurer Swan | \$2 billion over 4 years | \$2 billion over 4 years |
| LONG-TERM TRANSFORMATIONAL PROGRAMS | | | | | |
| Funding for national transport systems. | Under the guidance of Infrastructure Australia, ALGA supports the continuation of investment into national transport systems at levels equivalent to current AusLink funding including R2R quarantined for local government. R2R funding should be made more flexible including using these funds for transport related projects, and allowing councils to include depreciation in costings for in-house delivery of R2R services. | Infrastructure, Transport, Regional Development and Local Government | Minister Albanese | ALGA supports roads and transport funding equivalent to current AusLink funding at a cost of \$19.1 billion for the period 2008/2014 including guaranteed R2R funding for local roads. | Nil |
| Investment in natural resource management including biodiversity, coastal zone management and biosecurity. | Maintain a commitment to funding collaborative Commonwealth/State natural resource management programs such as those covered under the Natural Heritage Trust. The programs should be re-scoped to ensure that local government NRM planning and activities are better integrated into these programs including: continuing to fund the National Local Government NRM facilitators network; making local government eligible for Envirofund grants; stronger requirements for regional bodies to consult with and build synergies between regional and local plans | Environment, Heritage and the Arts | Minister Garrett | \$2 billion over 5 years | Nil |

| | DESCRIPTION | DEPARTMENT | MINISTER | COST | IMPACT ON FORWARD ESTIMATES |
|---|--|--|-----------------------------|--|--|
| Investment in water reform | Investment in water infrastructure and water reform including: addressing Murray Darling over allocation; modernising irrigation; and water accounting, metering and permanent water trading, providing priority access to water for stock and domestic community water supplies. Priority should be given to the establishment of a dedicated program for local government water sensitive design projects and recycling initiatives. | Climate Change and Water | Minister Wong | As advised by Government by including \$200 million over 4 years for local government urban design and recycling initiatives | Nil |
| Investment in the community's capacity to manage emergencies | Extend the funding for the Local Grants Scheme component of the Working Together to Manage Emergencies Program. | Emergency Management Australia | Attorney General McClelland | \$133.2 million over 4 years | \$33.3 million program over 4 years |
| STREAMLINING REGULATION MANAGED BY LOCAL GOVERNMENT | | | | | |
| Streamlining Regulation and Processes Managed by Local Government | Making business easier - Investment in local government regulatory monitoring infrastructure and initiatives to reduce the burden of regulation and processes on business including extending and implementing a more integrated electronic development assessment system throughout local government to assist in streamlining processing of applications within and between councils and other referral agencies (usually state or Commonwealth agencies). | Finance and Deregulation | Minister Tanner | \$100 million over 4 years | \$10 year 1, and \$30 million years 2, 3 and 4 |
| FUTURE CHALLENGES - CLIMATE CHANGE AND INDIGENOUS HOUSING AND SERVICES | | | | | |
| National Local Government Climate Change Innovation Fund | Investment in adaptation and mitigation strategies for local government comprising 3 programs: Review and up-date plans and where needed establish climate change adaptation plans; Facilitation of information networks; and Implementation funds to undertake projects of high risk. | Climate Change and Water | Minister Wong | An additional \$115 million over 5 years | \$115 million over 5 years |
| Municipal Services in Indigenous Communities | Municipal Services in Indigenous Communities. | Family, Housing, Community Services and Indigenous Affairs | Minister Macklin | \$400 million over 4 years | \$100 million per annum over 4 years |

DETAILED PROPOSALS

1. MEETING KEY ELECTION COMMITMENTS

Local government recognises the need to meet key election commitments in the areas of taxation, education and health and the following priorities of more direct relevance to local government:

- 1.1 Infrastructure Australia** - Local government supports the Government's commitment to the establishment of Infrastructure Australia at a cost of \$32 million over 4 years.
- 1.2 Housing Affordability** - Local government acknowledges the Federal Government commitment to allocate \$500 million for local government infrastructure associated with the provision of affordable housing as outlined during the federal election. ALGA will work with the Government to assist in implementing this initiative.
- 1.3 Grain Lines Review** - Local government strongly supports the Government's commitment to fund a \$3 million review of grain lines. This is an issue which ALGA has pursued in the Australian Transport Council and the proposed review has become more urgent since the announcement that Pacific National will be closing or selling its agricultural operations.
- 1.4 Broadband** - ALGA has consistently advocated the importance of high speed and affordable national broadband coverage. ALGA's 2007/2008 State of the Regions Report, prepared by National Economics, estimates that inadequate broadband infrastructure cost Australian business \$3.2 billion and 33,000 jobs. Factoring in the cost of lost opportunities to reduce greenhouse emissions because of the failure to fully take advantage of the knowledge-based economy and to introduce smart grids to reduce energy consumption results in a total loss to the Australian economy of around \$8 billion per annum. Local government acknowledges and fully supports the Federal Government's commitment to allocate \$4.7 billion over 5 years to establish the National Broadband Network which will connect 98 per cent of Australians to high speed broadband internet services – at a speed more than 40 times faster than most current speeds.
- 1.5 National Plan to Tackle the Water Crisis including a \$1 billion National Urban Water and Desalination Plan** – ALGA supports the Government's national plan to tackle the water crisis including in particular the \$1 billion National Urban Water and Desalination Plan to help secure the water supplies of Australia's major cities. Local government supports the Government's plans to:
 - Invest in more efficient and sustainable irrigation and farming throughout Australia.
 - Work with households and business to conserve water in our towns and cities and to invest in water infrastructure.
 - Promote the capture of storm water and the use of recycled water, especially by industry.
 - Promote new sources of water not dependent on rainfall, such as desalination, subject to consideration of potential environmental impacts.
 - Protect our rivers, waterways and natural environment.
 - Invest in water infrastructure in the Murray Darling Basin.
 - Begin reversing licence over-allocation by buying water entitlements from willing sellers.
 - Bring forward \$400 million of spending under the \$10 billion national water plan to fast-track action to secure water supplies.

2. REFORM OF INTERGOVERNMENTAL RELATIONS

ALGA welcomes the Government's commitment to reform intergovernmental relations and to end responsibility shifting and the blame game. The need to improve the way our Federation works and the collaboration between the spheres of government must include local government which is increasingly called on by local communities to deliver a wide range of services and infrastructure.

2.1 Reform to Local Government General-Purpose Funding

Recent reforms to intergovernmental relations have focused on Commonwealth and State financial relations. While ALGA acknowledges the importance of these reforms and the need for more to be done, in particular the development of a new framework for Specific Purpose Payments (SPPs), there is also an urgent need to address general-purpose funding transfers to local government.

ALGA acknowledges and fully supports State and Territory entitlements to the Goods and Services Tax (GST) as established in the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations. This Agreement ensures that States and Territories have access to general-purpose funding through tax revenue that increases in line with the growth in the economy.

During the negotiation of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations in 1999 the Commonwealth agreed to retain responsibility for providing general-purpose funding to local government through the payment of Financial Assistance Grants (FAGs). At the time, ALGA and the sector welcomed the decision as it maintained the nexus between local government and the Commonwealth Government that was established with the introduction of Local Government FAGs in 1975. However, much has changed since the introduction of FAGs. Local government has assumed greater responsibilities, sometimes imposed by State and Federal Governments, and other times in response to community needs. In addition, as various recent Local Government Financial Sustainability Studies demonstrate, capital formation has continued and depreciation liabilities have significantly increased. Local government is responsible for the management of \$183 billion of non-financial assets and infrastructure.

While local government generates a high proportion of its own revenue (more than 80% of local government revenue is from own-sources such as rates, fees and charges), Commonwealth general-purpose funding is essential, particularly in many rural and remote councils where grants make up to 80% of total income. Yet the methodology for determining local government FAGs has remained relatively unchanged for decades and is not linked to growth in the economy, unlike the general-purpose funding for the States and Territories which is provided through the GST.

The Productivity Commission in its draft report on Local Government Revenue has estimated that local government revenues in 2005/2006 were approximately \$23.9 billion. This comprised 40% rates, 29% sale of goods and services, 14% other included fees and charges and 17% grants and other subsidies (including capital grants). Commonwealth general-purpose financial assistance to local government is around \$1.7 billion (2007/2008), which is equivalent to 0.76% of Commonwealth taxation revenue. This has reduced from 1.01% in 1996–07 and is expected to fall to just 0.73% by 2010/2011. Local government does not receive any substantial general-purpose grants from State Governments.

There is a need to undertake fundamental reform of the current Financial Assistance Grants (FAG's) system, and local government is seeking annual general-purpose funding based on a fixed percentage share of Commonwealth taxation set to at least 1% of Commonwealth taxation revenue excluding GST. This initiative would take local government funding from an estimated \$1.82 billion under the FAG's to \$2.44 billion (2008/2009).

Local Government Funding in More Detail

An extended period of cost shifting, a growing mismatch between revenue raising and service delivery responsibilities and expectations and a relative decline in general-purpose funding support have resulted in chronic under-funding of local government. In 2006, ALGA commissioned PricewaterhouseCoopers (PwC) to undertake a national study into the financial sustainability of local government. This study, which built upon a number of state-based studies, concluded that between 10% - 30% of councils face substantial financial sustainability challenges.

PwC estimated that the aggregate national infrastructure renewals backlog in local government is approximately \$14.5 billion, with an annual underspend on renewals of \$1.1 billion. PwC concluded

that there is a funding gap of around \$2.16 billion per annum to clear the backlog and correct the underspend and recommended a twin track approach to addressing local government financial sustainability challenges. The first was to continue internal reforms, the second was to reform intergovernmental relations. The ALGA Board and State and Territory Local Government Associations on behalf of all Australian councils fully endorse these recommendations and are committed to achieving further efficiencies within the sector in cooperation with State/Territory Governments and the Federal Government. Over the last decade, local government, often led by State Local Government Associations, has participated in significant reforms to improve the efficiency and effectiveness of the sector. These include structural reform - including amalgamations; shared services and resources; new corporate practices; corporatisation of council-owned enterprises; outsourcing of services, and the adoption of national accounting standards.

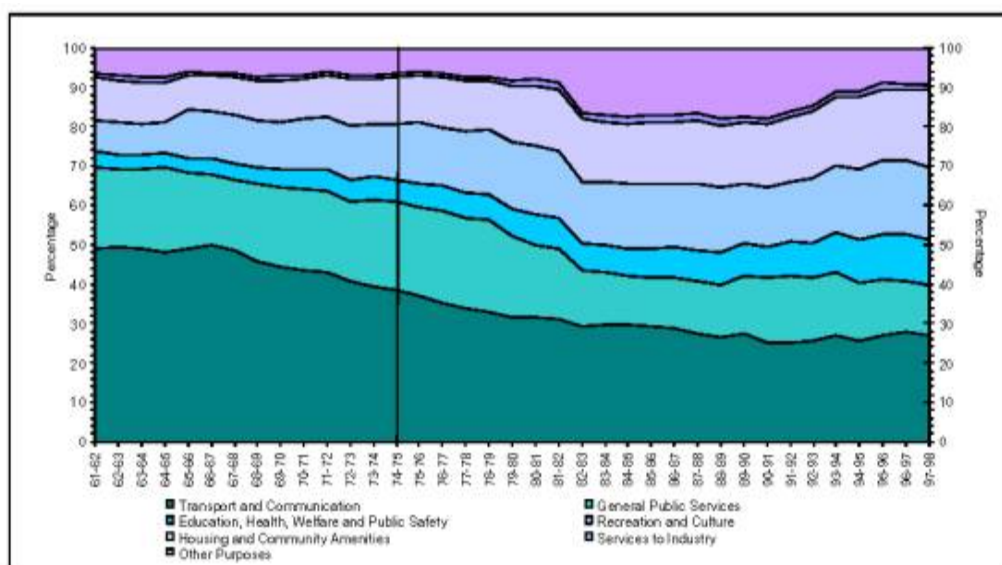
However, all of the studies into local government funding conclude that internal reforms have not and will not be enough by themselves to achieve financial sustainability of the sector. They indicate that there is a need in local government for significant additional revenue sources beyond that which can be generated through own-source revenues such as rates, and fees and charges. This is particularly important during a time when municipalities are constrained in their taxing powers by the reduced financial capacity of many rural areas and drought-affected communities to pay for increases in municipal rates and charges to make up for government shortfalls in other areas.

Growth in demand and rising expectations from constituents

Demand for services, including government services, is a direct consequence of the strong performance of the national economy. On top of a long-term growth trend, growth in demand for local government services has increased more rapidly during the past decade, corresponding to the substantial growth in the national economy. To meet this demand, local government revenues including grant funding must increase in line with the growth in the economy and its major cost drivers.

Over recent decades, the range and scope of local government functions have expanded, moving beyond the traditional local government services, such as roads and waste management, to incorporate a growing range of human services, environmental and other services. This trend is expected to continue given settlement patterns and demographic changes such as the ageing of the population. Figure 1 shows this significant change in local government expenditure over the past 40 years.

Figure 1: Composition of local government expenditure: 1961/1962 to 1997/1998



Source: Commonwealth Grants Commission - *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, page 54

The relative importance of transport related expenditure has significantly decreased, from around 50 per cent of total local government expenditure in the 1960s to little more than 25 per cent in the 1990s. Over the same period, there has been a significant increase in expenditure on recreation, culture, housing, and community amenities as a proportion of total local government outlays. In 1961/1962, these categories accounted for 11 per cent of total expenditure, increasing to 36 per cent by 1997/1998.

In its 2001, the Commonwealth Grants Commission concluded that:

“...the composition of services provided by local government has changed markedly over the last 30-35 years and local government is increasingly providing human services (social services) at the expense of traditional property based services (particularly roads).”

The Grants Commission observation is consistent with the increasing body of evidence that shows that local governments are being forced to defer maintenance and renewal of assets in particular local road assets and community infrastructure to fund operation activities including human services.

Cost shifting and its impact on local government

Federal and State and Territory Governments increasingly require, often through legislation, that local governments undertake a greater role in the areas of development and planning, public health and environmental management. This has occurred, however, without the provision of commensurate funding.

The Grants Commission acknowledged that these changes have been, to a certain extent, the result of cost shifting on to local councils by other spheres of government.

The Hawker Report³ also concluded that councils' functions have changed because other spheres of government expect local government to do more without providing any or sufficient funds to undertake additional functions.

In April 2006, the Local Government and Planning Ministers Council signed an Intergovernmental Agreement to stop cost-shifting. The *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations of Local Government Matters* is designed to establish an ongoing framework to address future cost-shifting. Local government looks forward to working with all signatories including the Commonwealth Government to implement the IGA.

While the IGA is an excellent initiative to address new program delivery proposals, the cumulative affect of past cost-shifting remains a constant drain upon existing council operations.

Constraints on local government's ability to raise revenue

ALGA welcomes the current Productivity Commission study Assessing Local Government Revenue Raising Capacity. We also note COAG's intention to look further at the issue of local government funding following the completion of the Productivity Commission's final report. Broadly, local government has three major sources of revenue: municipal, user charges, and grants and subsidies from other spheres of government. The remaining revenue comes from a number of sources including interest income, dividends, interest on grants and subsidies and fines.

While a relatively small proportion of local government's revenue nationally comes from grants and subsidies, the importance of grants, particularly the FAGs, should not be underestimated. FAGs account for more than 50 per cent of council revenue in some rural and remote areas where own-source revenue-raising capacity is severely limited.

The Hawker Report and the subsequent reports into local government financial sustainability have found that local government is struggling to meet community demand for more intensive 'human

³ Rates and Taxes: A Fair Share for Responsible Local Government, October 2003, House of Representatives Standing Committee on Economics, Finance and Public Administration.

services to the people', as well as maintaining its increasingly ageing physical asset base of roads and community infrastructure. Consequently, local government faces the choice of reducing services, ignoring its deteriorating physical infrastructure and/or increasing its revenue base.

Local government has maintained its revenue-raising effort over the last three decades and has worked hard to expand own-source revenue. During the 1970s, fees and user charges comprised 13 per cent of total revenue. This revenue source now represents 30.5 per cent of the total.

Local government has also continued to increase municipal rates. However, compared with growth in Commonwealth taxation revenue (48 per cent over the period 1998-99 to 2003-04), rates are a slow-growth tax (34 per cent over the same period). In addition, State Government restrictions such as rate pegging have limited local government's ability to increase rates.

The ability of local government to increase rates is also adversely affected by state Governments' increasing dependence upon property taxes. As the State Governments take more from property owners, it becomes more difficult for local government to increase rates in line with demand for local government services. The tax burden placed on property owners by State Governments has increased from 30 per cent to 41 per cent of total state taxation revenues over the past six years.

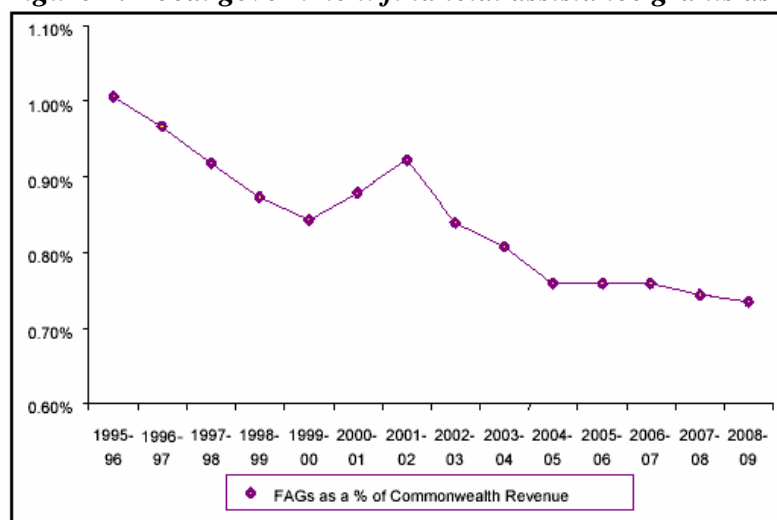
Given that the Australian taxation system is highly centralised (the Federal Government collects over 80 per cent of all taxes), the Federal Government has the capacity and obligation under our federal system to address the vertical fiscal imbalance (VFI)⁴. Similarly, under our federal system, the Commonwealth has an obligation to achieve horizontal equalisation across States and across local government to ensure that all citizens receive equitable levels of government services. Currently, FAGs are not adequately addressing VFI or horizontal equalisation.

The Australian Government annually adjusts the quantum of FAGs using an escalation factor based on inflation and population growth (although in 1997/1998 FAGs were not escalated for population growth). While this delivers a small annual growth in grants to local government, it is insufficient to meet growth in demand for infrastructure and services and the escalating cost of providing them.

Over the past 20 years, the application of this escalation factor has resulted in a decline of FAGs as a percentage of total Commonwealth revenue, as shown in Figure 2. The economy, Commonwealth and State taxation and peoples' expectations may have grown but FAGs have not.

The 2007/2008 Federal Budget papers indicate that this trend is set to continue. The value of FAGs, as a proportion of total Commonwealth revenue, will have fallen from 1.01 per cent in 1995/1996 to just 0.71 per cent by 2008/2009.

Figure 2: Local government financial assistance grants as a percentage of Commonwealth revenue



Source: Australian Local Government Association

⁴ Namely the imbalance between the revenue raising and expenditure responsibilities of the different spheres of government

Reforming local government funding

Given the demand upon local government and constrained ability to raise revenue, adequate revenue growth (for general purposes) can only be achieved through improved intergovernmental financial transfers - a fair share of Commonwealth taxation revenue.

The quantum of Commonwealth general-purpose funding to local government should increase from the current level of 0.71%, to at least 1% of total Commonwealth taxation revenue (excluding GST). Adopting such a system would increase estimated 2008/2009 general-purpose payments to local government from \$1.82 billion⁵ to \$2.44 billion.

More importantly, the system would ensure that councils gain access to a revenue stream that grows in line with the growth of the economy and therefore can keep pace with demand for service delivery and infrastructure provision.

Such reform would better address vertical fiscal imbalance and more adequately meet the Commonwealth's objectives as set out in the *Local Government Financial Assistance Grants Act (1995)* by:

- improving the delivery of services to local communities;
- maintaining and improving the quality of social and physical infrastructure across Australia;
- helping to counter growing regional inequality;
- assisting in the repair of environmental degradation across Australia; and
- improving community cohesion.

2.2 Investment in Community and Strategic Infrastructure through Local Government

While the intergovernmental financial reforms outlined above are essential to provide local government with a more sustainable level of general-purpose funding, they will only go part of the way to addressing local government's long term financial sustainability challenges. As previously noted, PwC estimates that in aggregate the national infrastructure renewals backlog in local government is approximately \$14.5 billion and the funding required to clear the backlog and eliminate the underspend is around \$2.16 billion per annum.⁶

The following measures are proposed to assist local government in directly addressing the backlog and underspend on local infrastructure.

2.2.1 Local Government Community Infrastructure Renewal Fund

Local government calls for the provision of \$250 million per annum for 4 years for the renewal and replacement of ageing community infrastructure such as swimming pools, sports stadiums, libraries galleries, museums, running tracks, community centres, walking or multipurpose paths etc.

Local Government is responsible for more than \$12 billion of community infrastructure for which there is a growing asset renewals gap. Community infrastructure provides the social backbone for many communities, particularly in rural and regional Australia. There is a considerable body of evidence that demonstrate the multiple benefits that can be derived from quality and well maintained community infrastructure. Benefits include: attraction and retention of key workers; health benefits from facilities such as recreational facilities, walking tracks and multi-purpose pathways that promote physical activity; and educational benefits through the provision of libraries, museums and galleries.

Because of financial sustainability pressures on local government, many councils, particularly those in rural and regional areas, are being forced to defer infrastructure investment/renewal in order to meet recurrent costs. Much of local government's infrastructure was built in the 30 years to 1975, often

⁵ Federal Financial Relations 2007/2008 Budget Paper No 3.

⁶ PwC estimate an annual underspend on renewals of \$1.1 billion.

with the assistance of one-off capital grants from other spheres of government, and is now reaching the end of its economic life. While the Federal Government is helping local government to address the roads infrastructure issues through the Roads to Recovery Program (R2R), the issue of community infrastructure is a growing problem.

Funding should be provided to assist local government bodies to renew or augment existing community infrastructure and assets. Funding would not be provided for new infrastructure, thus avoiding the accumulation of additional new assets, which would require additional revenues to maintain and renew.

Local government proposes that such a program should be similar to the R2R program and not established as a competitive grants program. This ensures that all communities benefit and avoids the situation where councils, often smaller rural councils, do not have the capacity to prepare applications and chase funding. Councils would be required to acknowledge Federal Government funding through signage and would be required to provide annual reports on how the funding has been spent.

Examples of community infrastructure, which could be funded through the program, include:

- childcare infrastructure;
- public halls;
- community buildings (including compliance with building codes (including Disability Discrimination Codes);
- theatres;
- main street/shopping strip footpaths;
- swimming pools;
- boat ramps;
- recreational facilities and playing fields ;
- playground equipment;
- senior citizen centres;
- public squares and spaces;
- libraries;
- galleries and museums;
- walking trails and board walks; and
- community and tourism information centres.

The program would deliver substantial benefits including:

- support of a community's activity and life on a local scale through addressing the growing backlog in existing community infrastructure;
- improved value and use from existing infrastructure;
- local governments which are enabled to lift the state of their entire asset base, to broaden the focus on such renewals;
- a program which builds on the success of R2R; and
- a significant boost to the long-term sustainability of the local government sector.

Local government calls for the provision of \$250 million per annum for 4 years for the renewal and replacement of ageing community economic and social infrastructure such as swimming pools, sports stadiums, libraries galleries, museums, running tracks, community centres, walking or multi-purpose paths etc

2.3 A Sector-led Reform to Improve Financial and Asset Management

Local government manages in excess of \$180 billion worth of assets of which \$105 billion is local roads and bridges. With the introduction of accrual accounting and rapidly changing community standards and needs, it is essential that all asset managers implement contemporary management techniques.

Currently it is estimated that only around 25-30% councils have adequate road asset management systems. Local government is responsible for 649,000 kilometres or 80% of roads in Australia. The proper management of road assets of this size and importance is difficult but essential for Australian communities and the local, regional and national economies.

An important by-product of an asset management system is that information about the assets can be aggregated to provide a picture of the extent and condition at regional, state and national levels. This initiative would be of significant benefit to the Australian Government.

A recent inquiry by the Commonwealth Grants Commission into the interstate distribution of the identified local roads component of the Financial Assistance Grants, has highlighted the lack of information about the road assets owned and managed by local government. The Australian Government could also use this data to establish that its investment through Roads to Recovery has been wisely spent.

ALGA is seeking funding totalling \$12.87 million over 3 years commencing in 2008/2009 to extend and implement roads asset management systems across all councils including \$1.0 million to develop and collect nationally consistent data. At the end of the 3-year funding program:

- all councils would have in place high standard roads asset management systems to assist their decision making;
- there would be acceptance by all elected councillors and council staff of the need for, and the benefits of the asset management system; and
- the data from the road asset management systems would be collected into national data collection developed by ALGA.

Under this program, each State and Territory Local Government Association would have the responsibility to roll out road asset management in their state. This builds on the progress already made with the roll out of road asset management. A small amount of funds would be made available for ALGA to coordinate and deliver on the national data collection.

This proposal would allow councils to adopt differing management technologies or programs provided the data was compatible with ALGA's national collection. Although the proposed asset management systems would be restricted to roads infrastructure, they could provide the platform for management of all assets in the future.

Proposed funding distribution

| State/Territory | Distribution of Funding \$ million (over 3 years) |
|-------------------------------|--|
| NSW | 2.75 |
| Victoria | 1.7 |
| Queensland | 2.75 |
| Western Australia | 1.97 |
| South Australia | 1.7 |
| Tasmania | 0.5 |
| Northern Territory | 0.5 |
| Australian Capital Territory* | Na |
| National Data collection | 1.0 |
| TOTAL | 12.87 |

* Funding for the ACT is not being sought as the local roads are managed in accordance with State/Territory level systems.

2.4 Accelerating Council of Australian Governments (COAG) Reforms

Local government supports the broad thrust of the COAG reforms particularly in the important areas of transport, including urban congestion, major export related infrastructure, energy and regulation

reform as well as in human capital (including early childhood development, literacy and numeracy and diabetes). Local government also supports acceleration of work in the important area of national water reform.

Local government is committed to playing its part in achieving meaningful reform that will enhance participation and the productivity of the nation. Implementation of the initiatives, which together form a comprehensive National Reform Agenda, could increase Australia's gross domestic product by up to 11% within 25 years, according to Productivity Commission estimates. The cost of this reform will be borne by all spheres of government although the benefits will be captured, in particular by the Australian Government, through increased taxation revenue. ALGA therefore supports in principle funding of \$2b over 4 years to facilitate COAG reforms including incentive payments and upfront payments to meet the cost of implementing reform programs. Such funding must be made available to local government to reflect the extent to which local government participates in achieving reform.

3. LONG TERM TRANSFORMATIONAL PROGRAMS

Local government recognises and supports continued investments into long-term programs that are designed to transform the delivery of national roads and transport systems, natural resource management and water reform.

3.1 National Transport Systems (AusLink)

ALGA supports the continuation of investment into national transport systems at levels equivalent to current AusLink funding including R2R quarantined for local government. ALGA supports the renewal of the AusLink legislation including in particular funding of \$19.1 billion over 5 years for a single land transport corridors of strategic national importance provided for under the existing National Networks Program.

3.1.1 Roads to Recovery (R2R)

ALGA welcomes the Government's support for the decision in last year's Budget to extend the Roads to Recovery Program until 2013/2014, with an increased rate of funding of \$350 million per annum from 2009/2010. Roads to Recovery is a highly valued and extremely successful program that is assisting local government to address some of the backlog in the maintenance and renewal of local roads.

Local Government fully supports this program and welcomes the government's to this important program into the future.

R2R funding should be made more flexible including using these funds for transport related projects, and permitting councils to include depreciation in costings for in-house delivery of R2R services.

3.1.2 Strategic Roads to Recovery

Local government also welcomes the Government's support for the decision in the 2007/2008 Budget to provide a further \$300 million to the AusLink Strategic Regional Programme in two \$150 million funding rounds in 2009/2010 and 2013/2014.

3.2 Natural Resource Management

ALGA recognises the importance of continued investment into the natural environment including natural resource management. ALGA supports the continuation of funding at levels equivalent to the Natural Heritage Trust and National Action Plan for Salinity and Water Quality and fully supports the extension of these programs beyond June 2008. Local government is fully committed to working with the Federal Government to strengthen local government's involvement in natural resources management arrangements including where appropriate regional arrangements, and to achieve improved science based NRM outcomes at all scales. Local government fully supports the

continuation and extension of the Local Government NRM Facilitators Network as a key resource to achieve greater integration of local government into current NRM arrangements. Local government supports the allocation of around \$2 billion over the next 5 years for natural resource management.

ALGA supports the continued investments into natural resource management of up to \$2 billion over 5 years.

3.3 Water Reform

ALGA welcomes and supports the Government's national plan to tackle the water crisis and the establishment of the new portfolio bringing together the critical issues of water and climate change.

ALGA supports continued investment in water infrastructure and water reform including water accounting, metering and permanent water trading, providing priority access to water for stock and domestic community water supplies. ALGA supports the further investment proposed by the Government to support water reform. Ensuring a consistent supply of good quality water to the community is critical and has far-reaching economic, environmental and social consequences. Water infrastructure includes supply, storage and treatment facilities. The infrastructure currently available in many communities is inadequate and in urgent need of maintenance and upgrade – a job beyond the scope of councils alone. Local government is willing to play its part in achieving national water reforms on just terms. Local government must be appropriately compensated where the reforms results in the transfer of local government assets to other levels of government or other entities.

Local government believes that higher priority should be given within existing water funding of water saving and recycling initiatives particularly in urban and regional centres. While some councils have accessed funding under the existing Australian Water Fund, the opportunities are limited under the current arrangements as, in many instances, large state proposals have been given preference for funding.

Given the drought and heightened awareness of the need for better local water infrastructure and conservation of water at the community level, ALGA believes that it is timely to establish a discrete local government water recycling and urban design initiative with funding of \$200 million over 4 years. This initiative would enable councils to demonstrate water saving and recycling technologies and provide concrete projects that will ensure that scarce water resources are optimised. Projects eligible for such funding would include implementation of third pipe initiatives in new developments; stormwater harvesting and water conservation projects in council-owned and operated premises.

ALGA supports the provision of \$200 million over 4 years to assist councils develop projects water sensitive urban design principles and recycling initiatives.

3.4 Managing Emergencies

Local governments are at the forefront in preparing to manage emergencies. The Local Grants Scheme (LGS) of the Working Together to Manage Emergencies Program has been an invaluable source of funding to assist councils, and State Local Government Associations where appropriate, to prepare for emergencies in a variety of different ways, including through outfitting coordination centres, preparing mitigation and evacuation strategies, developing and delivering training, etc.

Local government believes the program should be extended for a further 4 years from 2008/09 at \$33.3 million per annum to strengthen the capacity of all local governments, particularly in the face of more severe and frequent natural disasters, which are likely because of climate change.

Local Government supports the extension of the Working Together to Manage Emergencies program for a further 4 years at \$33.3 million per annum to strengthen the capacity of all local governments.

4. STREAMLINING REGULATION AND PROCESSES MANAGED BY LOCAL GOVERNMENT

Businesses and the broader community need to comply with a large number of local government processes, many of which are managed by local government on behalf of other spheres of government.

4.1 Making Business Easier Initiative

Local government believes that the 2007/2008 Budget needs to develop targeted programs to enhance the productivity and profitability of Australian businesses, in particular export-oriented businesses.

To this end, local government recognises the importance of the COAG reforms, and encourages their acceleration, in order to contribute to lower business costs and increased efficiencies in transport and export oriented infrastructure.

Local government supports funding of \$100 million for 4 years to assist local government to systematically review and streamline regulation and processes managed by local government that impose additional costs on business. Lessons learned from the previous Government's Regulatory Reduction Incentive Fund (RRIF) show that a systematic and coordinated approach to reducing the cost of red tape, often administered on behalf of other levels of government, is required to avoid ad hoc and location specific reforms. ALGA and State and Territory Local Government Associations are willing to play an active role in facilitating a national approach to this important initiative.

Local government is the first port of call for anyone wanting to start up or expand a small business and is willing to work with the Australian Government over the next 4 years to streamline regulatory processes and reduce red tape, particularly for small business. Of particular value, and identified by COAG as a priority area, is the funding of trials of electronic processing for development assessment.

ALGA and State and Territory Local Government Associations would like to be involved in the design of the program to ensure more state-wide and nationally consistency and better outcomes for businesses and all spheres of government. It should be noted that this program could complement and expand upon the Federal Government's affordable housing election commitment.

ALGA supports funding a local government Regulation Reduction program at \$100 million for 4 years.

5. INITIATIVES FOR CLIMATE CHANGE AND INDIGENOUS AFFAIRS

5.1 Climate Change

Local government is the cutting edge of climate change. ALGA fully supports the Government's commitment to work collaboratively to develop a national emissions trading scheme. ALGA welcomes the Government's acknowledgement that meeting climate change challenge will require a mix of policy initiatives including a recognition of the need for assistance in particular for low-income households to meet the inevitable increased costs of rising energy and water prices.

ALGA acknowledges and welcomes the Government's election commitment to "Introduce practical measures to improve household energy efficiency, including generous rebates for solar power systems and solar hot water and low interest loans for Australian families to undertake water and energy efficiency improvements in their homes".

Local government is increasingly aware of the risks and potential implications of climate change on its own business enterprises and local communities and is keen to establish a strong working partnership with the Federal Government to address climate change.

Local government has a major responsibility to plan for local communities. However, plans are not useful unless they are current, well-informed and capable of being implemented. Local government seeks assistance for all three of these processes.

Program A – Most, if not all councils, have a range of community and corporate plans in place. Many local governments need assistance to help them review and update these plans and to develop new more comprehensive climate change and adaptation plans for their areas. Local government seeks \$10 million over 5 years to assist councils to systematically review plans, in particular disaster mitigation and infrastructure plans to take account of the risks of climate change. This program would comprise two components: 1) support for the conduct of risk assessment plans; and 2) funding to develop an implementation plan to address these risks.

Program B - As further information on climate change is provided by authorities such as CSIRO and BOM there is a need for all councils to review and update many of their existing plans. Such a review should be informed by a robust assessment of risks based on and including, best available scientific data on region-specific impacts of climate change. Local government fully supports investment in the Government's foreshadowed expert panel to provide region specific information to local government. Local government seeks \$5 million over 5 years to establish a local government Climate Change Facilitators Network. This would provide a suitably qualified facilitator located in each State and Territory Local Government Association and the Australian Local Government Association and be aimed at ensuring information exchange and shared learning between the scientific community, the Commonwealth, State and Territory Governments and local councils. The Climate Change Facilitators Network would also support councils undertaking reviews and updating their plans as outlined above.

Program C - Implementation of climate change and adaptation plans will require resources. Some plans will identify a range of initiatives and changes to existing practices and the cost of implementation might be expected to be met within councils' normal operating budgets over time. However, it is expected that there will be a number of urgent and capital intensive adaptations that will be required. For example, recent coastal storm activity has demonstrated the vulnerability of areas of high population along the coastline. Hardening of infrastructure and implementation of long-term strategies including, for example, re-location of assets at risk, it is likely to be required. ALGA acknowledges and supports the Government's election commitment to \$100 million for a five-year Community CoastCare Program to help coastal communities protect the Australian coastline and prepare for the impacts of climate change but we believe the amount of funding required to address the needs of all councils is in the order of \$200 million over 5 years and ALGA therefore calls for an additional \$100 million.

Local government supports the provision of:

- *\$10 million over 5 years to assist councils systematically review plans, in particular disaster mitigation plans and infrastructure plans to take account of the risks of climate change.*
- *\$5 million over 5 years to establish a local government climate change facilitators network.*
- *\$200 million over 5 years to implement urgent and strategic infrastructure projects in high risk areas that are identified within local government climate change and adaptation plans or their equivalent plans.*

5.2 Indigenous Housing and Associated Services

ALGA is also gravely concerned with the inadequacy of Indigenous housing, particularly in remote and rural Australia. ALGA urges the Australian Government to consider the provision of an additional \$100 million per year for 4 years for the provision of municipal services to Indigenous communities.

In 2001, the Housing Ministers' Conference adopted a statement of new directions for Indigenous housing, *Building a Better Future: Indigenous Housing to 2010*. This, among other things, recognises the clear relationship between housing, living standards and the health and well-being of Indigenous people.

While Indigenous housing, health and education are the responsibility of the Australian and State/Territory Governments, local government acknowledges its role, particularly in the Northern Territory where community councils provide and run Indigenous-housing programs.

In this regard, ALGA commends the Australian Government's existing contribution to Indigenous housing, especially the additional funding provided to the Emergency Response initiatives in the Northern Territory as well as under the Healthy Indigenous Housing program in recent years.

Australian Government data supports the need for more Indigenous housing. This includes the provision of over 11,000 bedrooms in the Northern Territory alone. In many remote and rural Indigenous communities, housing and related infrastructure - including local government infrastructure - remains grossly inadequate. The Commonwealth Grants Commission Report on Indigenous Funding concluded that the backlog for Indigenous housing was close to \$4 billion. Solutions to Indigenous housing will involve a range of agencies. Additional measures are required to ensure that all relevant government agencies work more closely together to bring their combined resources and expertise to address this backlog.

There is an acute need for additional housing. However, there is also an acute need for services and infrastructure that support new housing. This includes roads, sewerage and stormwater drains, waste management and other property-related services.

Local government seeks an additional \$400 million over the next four years to assist local government authorities provide infrastructure and services associated with new housing.

With the Government's plan to establish a new Indigenous representative body, it is timely that the Australian Government reviews all national strategies for the delivery of improved Indigenous housing and associated infrastructures. ALGA seeks a direct strategic partnership with Australian Government and relevant State and Territory agencies to ensure satisfactory housing outcomes.

Local government supports \$400 million over 4 years for municipal services to Indigenous communities.

Contact

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