



AUSTRALIAN LOCAL  
GOVERNMENT ASSOCIATION

Submission to the 2014-15 Federal Budget

***Supporting and Strengthening  
Communities***

January 2014

***By email: [prebudgetsubs@treasury.gov.au](mailto:prebudgetsubs@treasury.gov.au)***

The Hon Joe Hockey MP  
Treasurer  
Parliament House  
CANBERRA ACT

Dear Treasurer

**ALGA 2014-15 Budget Submission**

The Australian Local Government Association (ALGA) is pleased to present this Submission for consideration in the preparation of the 2014-2015 Federal Budget.

Local government believes reform must continue in the area of Commonwealth-local government financial relations to ensure the long term financial sustainability of local government and ALGA believes that such reforms must encompass:

- a comprehensive review of the Financial Assistance Grants program, leading to an improved growth/escalation methodology and a more realistic funding pool;
- permanent funding for Roads to Recovery and additional funding to address the substantial and very real funding gap for local roads and bridges faced by councils; and
- prevention of cost and responsibility shifting onto local government by other levels of government, particularly the state and territories.

ALGA acknowledges the challenging fiscal environment facing the Australian Government. The effects of the changing mix of the Australian economy and the unstable global economic outlook means that, despite a strong regional economy, the impact of those factors has weakened the economic outlook. ALGA understands these concerns, and notes the Government's intention to return the Budget to a surplus of 1% of GDP by 2023-24.

As the process of the Australian Government's Commission of Audit is concluding, there is an increased focus on what the Government does and how to ensure that what it does delivers value as well as results. The Australian Government's financial relationship with local government supports the delivery of vital services to communities, ensures an equitable level of local services and represents a highly efficient investment in productive infrastructure. Maintaining and strengthening effective and financially sustainable councils is in the interest of all levels of government and underlies ALGA's call for a review of both the adequacy of the Financial Assistance Grants (FAGs) and risks posed by cost shifting.

ALGA believes that local government funding should be equitable, efficient and effective at delivering essential services that all communities rely on.

A primary ongoing concern is the long-term security of the Roads to Recovery program, and its evolution into a permanent funding program. The ALGA National General Assembly in June 2013 and the National Local Roads Congress in November 2013, highlighted the program's importance. Local government welcomed the Government's announcement to maintain the program's funding to 2019. ALGA welcomes the Government's commitment to a Bridge renewal program to commence on 1 July 2014. ALGA will, however, continue to stress the need for these programs to be made permanent.

ALGA understands the fiscal challenges facing the Commonwealth but expenditure on priorities does not wait for a convenient moment. Funding is required across a wide-range of areas, and ALGA is calling on the Australian Government to show commitment to long-term funding of vital services. Indeed, it can be argued that in times of fiscal constraint Governments should focus on community priorities and investment in infrastructure and should also look to the most efficient processes to deliver programs. This is especially true in the context of the Commission of Audit as well as the forthcoming reviews on the Federation and the tax system. The direct funding of local government to deliver infrastructure and services makes sense in the current environment.

ALGA calls in this Submission for continued investment in local transport and community infrastructure, further investment to enable local communities to realise the benefits of broadband and additional investment in our capacity to adapt to climate change which is already built into the system.

I commend this budget submission to you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Felicity-ann Lewis', written in a cursive style.

Mayor Felicity-ann Lewis  
**President**

# Looking to the future

The Australian Local Government Association (ALGA) is the national voice of more than 560 local government authorities. It is a federation of state and territory local government associations. The President of ALGA is a member of the Council of Australian Governments (COAG) as well as several other relevant Ministerial Councils. This provides ALGA with a unique perspective in formulating and presenting its 2014-15 Budget Submission to the Australian Government.

ALGA's current strategic priorities include, but are not limited to:

- improving local government funding to ensure sustainable and effective governance;
- working to prevent cost and responsibility shifting;
- practical actions to address the impacts of a changing climate;
- strengthening community resilience and capacity to deal with natural disasters;
- ensuring that local government is best-placed to participate in the digital economy and deliver benefits to local communities; and
- acting in collaboration with other governments and stakeholders to improve outcomes directed at municipal service delivery to Indigenous communities.

ALGA's Budget submission proposes initiatives to address these strategic priorities.

Local government's national significance is underlined by the fact that it employs around 195,000 Australians (just over 10 per cent of the total public sector),<sup>1</sup> owns and manages non-financial assets estimated at \$316 billion (2011-12)<sup>2</sup>, raises around 3.5 per cent of Australia's total taxation revenue per annum<sup>3</sup> and has an annual expenditure of around \$29 billion (2010-11) (just under 6 per cent of total public sector spending).<sup>4</sup>

Local government's expenditure is directed towards the provision of local services, which include: housing and community amenities; transport and communications; recreation and culture; and social security and welfare.<sup>5</sup>

Independent research commissioned by ALGA in 2012 shows that a majority of Australians agree that local councils play an important role in their lives.<sup>6</sup>

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<sup>1</sup> ABS Cat No 6248.0.55.002 Employment and Earnings, Public Sector, Australia 2008-09.

<sup>2</sup> <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/1376.0main+features7002013>

<sup>3</sup> ABS Cat No. 5506.0 Taxation Revenue series.

<sup>4</sup> ABS Cat No. 5512.0 Government Finance Statistics, Australia.

<sup>5</sup> Op cit at 4 above.

<sup>6</sup> Unpublished research 2012.

It should be noted that at an aggregate level, local government undertakes its work while being around 90% self-funded. However, many rural and regional councils do not have the means to collect the same revenues as their urban and larger regional counterparts and are much more reliant on external funding sources. Higher grant levels are absolutely critical to these authorities being able to function in the best interests of their constituents and to equalise services and infrastructure availability across the community. Considerable local government funds are spent on vital additional work that relates to broad national issues. As the level of government closest to Australians, local government is aware of and understands the myriad challenges faced by local and regional communities as they live, work and interact in an increasingly complex domestic and global environment. Local and regional communities require support to respond and adapt to factors they cannot control, such as drought, natural disasters and economic upheavals.

Local government strives, wherever possible, to assist communities to overcome these types of challenges, enhance their capacity to respond to new and unforeseen challenges and identify opportunities that can help build resilience and increase overall prosperity.

The Australian Government has shown that it understands and appreciates that local government's strength lies in its capacity to identify and respond to the diverse and emerging needs of communities across Australia.

The Australian Government has shown its commitment to working with local government to achieve real and meaningful outcomes for local and regional communities. ALGA looks forward to the Government continuing this important undertaking.

The Australian economy is growing, albeit in an uneven manner. The international outlook remains fragile and the high value of the Australian dollar has placed more pressure on our export industries. This has been evidenced by adjustments to Budget outcomes and forecasts in recent years. We understand the budgetary pressures the Government faces given the commitment to bring the Budget back to surplus. While building a strong Budget surplus over the coming years will require difficult choices and considerable discipline, those constraints should not prevent investment in essential reforms and initiatives that are vital to increase Australia's international competitiveness and the sustainability of local communities. ALGA recognises the Government's agenda of boosting productivity, reducing red and green tape and boosting support for vital national infrastructure projects. It is clear that by supporting our communities, the goals this Government is aiming for will be easier to achieve.

While preserving the flexibility to respond to changing or unforeseen future economic circumstances is critical, ALGA also urges the Australian Government to include measures in the 2014-15 Federal Budget that ensure national growth is locked in through appropriate funding and is sustainable over the medium to longer term.

## **ENSURING LOCAL GOVERNMENT'S FINANCIAL SUSTAINABILITY**

Local government currently receives general purpose funding from the Australian Government in the form of Financial Assistance Grants (FAGs). This funding is technically provided as a Specific Purpose Payment (SPP) made under the *Local Government (Financial Assistance) Act 1995* (Cth). ALGA notes that FAGs were previously set aside from the Australian Government's federal financial reform agenda, but are now the subject of a limited review by the Commonwealth Grants Commission.

ALGA has long called for a thorough review into the equity and efficiency of the funding provided by the Australian Government for local government through the FAGs program. ALGA calls for the processes over the next two years to review taxation and the Federation to include the adequacy of the FAGs, particularly the quantum and indexation methodology.

The decision by the previous Federal Government to not proceed with the referendum to recognise local government in the Constitution was a blow to councils. In the face of future legal challenges that could put at risk vital programs and their funding, it is important that the Federal Government makes sure that strong protections are put in place for the direct funding of local government.

### **FINANCIAL ASSISTANCE GRANTS TO LOCAL GOVERNMENT AND THE IMPERATIVE FOR REFORM**

*The 2014-2015 Budget should include commitments to:*

- **address the need for equitable and appropriate funding;** and
- **commit appropriate resources to aid in the prevention of cost shifting** and working towards a renewed Inter-governmental Agreement on this issue.

The Commonwealth noted that almost 91 per cent of local government's revenue in 2006-07 was from its own sources.<sup>7</sup> Over the last decade, local government has consistently raised more than 80 per cent of its total revenue from own sources. Local government is also utilising almost 90 per cent of its total hypothetical maximum own-source revenue capacity,<sup>8</sup> which indicates there is limited scope for local government to introduce new or additional revenue imposts.

However, the Government also noted in the latest Local Government National Report<sup>9</sup> that averages can mask the true situation of specific local councils and important differential impacts on different groups. The Productivity Commission (PC) has confirmed that a significant number of local councils, particularly in rural and remote areas, will remain dependent on grants from other spheres of government to meet current expenditure. The PC further concludes that some councils will always remain highly dependent on FAGs, notwithstanding they might have fully utilised their own-source revenue raising capacity.<sup>10</sup> This is why intergovernmental funding, particularly FAGs, continues to be very important in ensuring local and regional communities are financially capable of meeting both day-to-day

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<sup>7</sup> Op cit at 2 above, p.14.

<sup>8</sup> Productivity Commission report *Assessing Local Government Revenue Raising Capacity* (April 2008), Finding 5.4, p.xxxvii (herein referred to as the 'PC report').

<sup>9</sup> Op cit at 2 above, p.12.

<sup>10</sup> Op cit at 10 above, Finding 5.5, p.xxxviii.

costs and new challenges, whilst retaining sufficient flexibility to harness new opportunities. Funding certainty is critical to the long term planning of local and regional communities.

Of all the levels of government in Australia, the Australian Government has the greatest capacity to raise revenue relative to its responsibilities. On the other hand, ABS statistics show that local government is the least taxing of Australia's three levels of government.<sup>11</sup>

The *Local Government (Financial Assistance) Act 1995* embodies the principle that the Commonwealth should distribute a proportion of revenue to local government to support the building of resilient and prosperous communities. The FAGs, which are untied in the hands of local councils, are intended to improve local government's capacity to provide communities with an equitable level of services and to increase the effectiveness and efficiency of local government.

Intergovernmental funding is the main source of external revenue provided to local government. General purpose funding from the Commonwealth accounts for around 7 per cent of total local government revenue in.<sup>12</sup>

#### **A BETTER FUNDING POOL AND MORE APPROPRIATE INDEXATION**

Although FAGs are intended to supplement the ability of local government to support functions, they have fallen over time as a proportion of overall Commonwealth taxation revenue.

- As a proportion of total Commonwealth taxation revenue in 2012-13, FAGs amounted to around 0.69 per cent,<sup>13</sup> continuing a long trend of reduced FAGs as a proportion of the Commonwealth's taxation revenue. By contrast, these grants represented around 1 per cent of total Commonwealth taxation revenue in 1995-96 and 1996-97. This reduction in general purpose funding means that the funding support provided by FAGs is now less than that required to maintain appropriate local government services. The current base funding of \$2.1 billion should be increased to better reflect the actual cost of local government services and infrastructure and as an interim solution should be restored to a level equal to at least 1 per cent of Commonwealth taxation revenue. This would mean an increase in FAGs in the year 2014-15 of around \$760 million.
- The escalation or growth methodology for the general purpose funding also requires revision. The methodology is based on population growth and inflation and has remained unchanged for decades, despite significant changes in our economy (the introduction of GST, real wages growth). Over the last decade in particular, the inadequate escalation methodology has contributed to a growing gap in the funds required by local government to meet increased demand for local community infrastructure and services. In contrast, the general purpose funding provided from

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<sup>11</sup> See ABS Cat No. 5512.0 Government Finance Statistics series.

<sup>12</sup> Local government does not receive any substantial general purpose funding from state governments.

<sup>13</sup> 2010-11 Final Budget Outcome, Part 3, Australia's Federal Relations

the Commonwealth to the states and territories through the GST more transparently reflects growth in the real economy and trends in costs.

The other element of the escalation determination is the use of ABS population data. Problems with the data were highlighted in 2012, when the ABS revised its data and, consequently, population estimates downward. The Commonwealth immediately reduced the value of many payments, including FAGs, even after Budget announcements. While local government fully supports the need to ensure public funds are spent with the utmost care and probity, the impact of reducing already strapped councils' grants by 2.5% overnight, is the difference between a service being provided and not. In its submission to the ABS on this issue, ALGA highlighted the position of vulnerable councils and called for greater consultation with local government as well as investigating a way to apply any future adjustments in a more phased manner.

Although horizontal fiscal equalisation is one of seven federally legislated principles for the allocation of FAGs, the PC itself has observed that 'the current level of FAGs is insufficient to achieve horizontal fiscal equalisation' and that 'there is a case to review the provision of Australian Government general purpose grants to local government'<sup>14</sup>.

ALGA notes the Australian Government's decision to establish reviews into the Federation and the taxation system and calls on the Government to ensure that the reviews consider the overall suitability and sustainability of local government funding, noting the following:

- On top of a long-term growth trend, growth in demand for local government services has increased rapidly during the past decade, corresponding to substantial growth in the national economy. In addition, local government must also play a role in meeting new and unprecedented challenges affecting all Australians, such as the impact of population ageing and associated health care needs, disease and obesity, environmental protection and climate change. To respond adequately, local government revenues must increase in a way that truly reflects the cost of delivering local government services and community infrastructure, having reference to relevant major economic cost drivers including the costs of labour. The principle applies equally to intergovernmental transfers.
- In addition to the increasing community demand for services, local government must devote a growing level of its resources to capital formation and depreciation liabilities. The report of the House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003 and subsequent reports into local government financial sustainability have found that local government is struggling to meet community demand for more intensive 'human services to the people', whilst maintaining its increasingly ageing local community assets. The backlog is estimated to be \$14.5 billion nationally. As a result, local government faces the choice of reducing services, ignoring its deteriorating physical infrastructure and/or increasing its already well-utilised revenue base. Each of these options presents social,

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<sup>14</sup> PC report, op cit at 10 above, Finding 5.6, p.xxxviii.

environmental and political costs. Although funding from the Australian Government of around \$1.1 billion in 2008-09 and 2009-10 to assist local government to modernise local community infrastructure was a greatly welcomed step, the gap cannot be adequately or sustainably corrected in the absence of further ongoing funding support to the sector.

Given the demands upon local government and its limited capacity to raise additional own-source revenue, adequate revenue growth for general purposes can only be achieved through an increase in the quantum of intergovernmental financial transfers.

ALGA seeks the review of both the base funding for FAGs, and the indexation methodology, so that communities can have the certainty they need to plan adequately for future challenges. ALGA believes that a review of these arrangements would help to ensure a revenue stream for local government that will reasonably keep pace with demand for service delivery and infrastructure provision. In turn, better funding levels will boost community resilience and Australia's overall prosperity in the future.<sup>15</sup>

The base and escalation aspects of general purpose payments to local government should be consistent with the approach adopted by the Australian Government to the increases in base funding and indexation of National SPPs. ALGA proposes that as an interim measure, a minimum 1 per cent of Commonwealth taxation revenue, which is based upon the precedent presented by the Commonwealth's reform to review base and escalation methods, be applied to FAGs.

Local government would welcome the opportunity to further its partnership with the Australian Government by working together to identify constructive general purpose funding reform options that more adequately meet community needs and fulfil the Commonwealth's objectives as set out in the *Local Government (Financial Assistance) Act 1995*. Such reforms would enable local government to more fully meet the diverse economic, social and environmental needs of local and regional communities, whilst delivering on important national priorities being pursued at the Australian Government and COAG levels.

#### **COST SHIFTING AND THE IMPORTANCE OF A STRENGTHENED INTERGOVERNMENTAL AGREEMENT TO PREVENT IT RECURRING**

A key driver of the increased demand on local government finances is its role in acting as a major service provider of Commonwealth and state services. Local government remains committed to playing this role. However, as local government has been providing those services on behalf of other levels of government, it is unreasonable to expect local government to meet the costs of the services if funding is withdrawn.

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<sup>15</sup> See speech by Treasury Secretary Dr Ken Henry AC, 'Fiscal Policy – More than just a national budget' 30 November 2009, in which he acknowledges that '[w]hatever the size of government, fiscal sustainability is important for maintaining macroeconomic stability, reducing aggregate economic vulnerabilities; and in those ways, improving aggregate economic performance. It reduces the degree of uncertainty about future policy settings and facilitates growth-enhancing economic decision-making, especially regarding the accumulation of physical and human capital.'

Withdrawal of funding once councils have accepted the service delivery role may expose councils to community pressure to fund the continuation of the service. This is cost shifting and a poor outcome for communities. Importantly, it can erode the value of the FAGs and other federal funding provided to local government by forcing councils to divert resources into areas formerly funded by state governments.

In April 2006, all Australian governments signed the *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations on Local Government Matters* (the IGA). The IGA outlines a set of principles designed to establish an ongoing framework to address future cost shifting, and prevent the cost shifts that have occurred in the past.

Cost shifting by the Commonwealth and state governments has been estimated to have a negative impact on councils of up to \$1.1 billion annually.<sup>16</sup> The effects of cost shifting to local government from other levels of government (mainly state governments) for which the sector remains uncompensated, have magnified over recent years, and present a genuine threat to the ongoing financial sustainability of the sector. This is because other levels of government continue, whether indirectly or directly, to assign additional responsibilities to councils. These include increased emergency and disaster management, environmental programs, community education, business development, management of certain land and the transfer of roads. Compulsory amalgamations in some jurisdictions over recent years, coupled with state-prescribed responsibilities (for example, in the Northern Territory), have also increased opportunities to cost shift onto the local government sector.

ALGA is committed to the IGA as it underlines the importance of effective intergovernmental collaboration and processes to avoid and prevent cost shifting practices, which are essential to maximising local government's own efforts to enhance financial sustainability. As noted above, there is little scope left to local government to increase own-source revenue in order to meet the additional costs that come with responsibility shifting.

Under the terms of the IGA it was to be reviewed after 5 years of operation. ALGA noted that former Minister Crean announced his intention to review the IGA in November 2011. While a cursory process was undertaken by officials ALGA does not accept that this amounted to a substantive review and ALGA believes that the IGA should be reviewed and strengthened so that all levels of government agree to comply with its principles whenever new or additional functions, or new or increased service standards affecting local government, are being considered. Without a strong agreement, local and regional communities cannot be confident that their social, economic and environmental needs are being fully and openly appreciated by other levels of government. Similarly, a renewed IGA must continue to ensure that funding flows to local government so that it can effectively discharge the functions expected of it.

## **COMMONWEALTH PAYMENTS TO LOCAL GOVERNMENT OTHER THAN FINANCIAL ASSISTANCE GRANTS**

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<sup>16</sup> House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003.

Local government has a sound track record of delivering national policy objectives and projects where it has the right structural and funding support. This is particularly evident with regard to community infrastructure programs.

Local government plays an important role in the delivery of services funded by the Commonwealth. Where local government is a service deliverer, funding should flow directly to local government. In addition, such funding should include appropriate indexation both to avoid the risk of cost shifting and to increase local government's capacity to meet the increased needs of a population that is ageing, and less healthy. Greater certainty on this issue would ensure that local government can deliver services in the most timely and efficient manner, whilst supporting the overarching outcomes and objectives to be achieved pursuant to National Agreements that support National SPPs.

## **Strengthening Roads to Recovery**

*ALGA believes the Australian Government should:*

- **commit to a permanent Roads to Recovery program** to provide additional funding for local roads of up to \$1.2 billion per annum, comprising increased Roads to Recovery funding, a reintroduced Strategic Regional Roads Program, a dedicated program for bridge maintenance and additional FAGs identified for roads.

ALGA welcomed the decision to extend the current Roads to Recovery program to 2019, funded at \$350 million per annum. While this measure was a positive step, it is vital for the services provided for by this program to be supported and protected for the long-term.

Local roads are the capillaries of our communities linking our homes, schools, farms and business. They are the building blocks of our nation's transport network providing access to and from our front gates to local, regional, state, national and international services and markets. Without local roads there would be no access to schools, health facilities, social facilities and markets.

The local road system has developed and expanded so that its 650,000 kilometres is over 80% by length of all roads in Australia and a significant component of the national transport system. The National Transport Commission has estimated that 36% of all kilometres travelled in Australia are on local roads. The economic importance is demonstrated by 30% of medium vehicles and 16% of heavy vehicles kilometers being on local roads.

The maintenance of the local road system is one of local government's major tasks and in most councils it is the single largest item of expenditure. Total expenditure on local roads by councils was estimated by the Bureau of Infrastructure, Transport and Regional Economics to be just over 13% of local government aggregate expenditure (\$3127 million) in 2007-08. An equivalent figure in 2013-14 would be in excess of \$4 billion.

Councils have an obligation to manage their local roads effectively and to continue to improve their asset management. However, improved asset management alone cannot meet the backlog in funding to address the issue. The ALGA study released in 2010 into local road funding found expenditure on local roads has been less than the life cycle cost for the past 5 years and that the shortfall in funding to simply maintain rather than improve Australia's local roads in the period from 2010 to 2025 is estimated to be around \$1.2 billion annually.

The study quantified what councils knew - the local road system, the capillaries of our communities, is breaking down. This is an untenable position for Australia.

The Federal Government has, since 2000, recognised that the needs of local roads are beyond the financial capacity of local government and has provided supplementary funding under the Roads to Recovery Program. Local government acknowledges and is grateful for the significant contribution that the Roads to Recovery funding has made to improving local roads and the economic, social and community benefits the program has achieved to date. It is difficult to imagine what the state of local roads would now be without the \$4.5 billion provided so far.

The Roads to Recovery Program is a true partnership between the Federal and local governments. Under the terms of the Roads to Recovery Program local government has complete management responsibility for the delivery of the Program without Federal intervention.

There is more, much more, to do on our local roads. The continued under-investment in local roads hinders local and regional social and economic development and ultimately affects the development of the nation as a whole.

ALGA has sought additional Commonwealth funding to bridge the gap. This additional funding should comprise increased Roads to Recovery funding, funding of a Strategic Regional Roads Program, a dedicated program of funding for bridge maintenance and additional identified roads grants which are part of FAGs funding. The review of FAGs should also look at the distribution of FAGs identified for roads so that they more accurately reflect needs noting that any changes in formula should not result in any council being financially disadvantaged.

### **BRIDGE RENEWAL PROGRAM**

ALGA has called for a bridge maintenance program in the past and so strongly applauds the commitment made by the Government to fund a bridge renewal program from 1 July 2014 at a level of \$300 million over five years. This is an initiative with the potential to help councils address the very substantial problems affecting local bridges, especially timber bridges.

## **Infrastructure**

*ALGA urges the Australian Government to:*

- **commit funding to support regional and community infrastructure** in the 2014-15 Budget at a cost of \$300 million per annum each year for the next four years to stimulate growth over the longer term and build community resilience; and
- **renew funding for the National Bike Paths Program** at a cost of \$120 million for the next four years, to further the preventative health and other benefits that have flowed to the community under the current Program

## **COMMUNITY AND REGIONAL INFRASTRUCTURE**

Local government is responsible for many billions of dollars worth of community infrastructure (not including local roads). This infrastructure provides the social and economic backbone for communities throughout Australia, particularly those in rural and regional areas that are continuing to experience economic hardship exacerbated by increasingly unfavourable weather conditions and an uncertain global economic outlook.

The funding allocated by the Australian Government to support the Regional and Local Community Infrastructure Program until 2010 was warmly welcomed by local communities across the nation. This funding made an important contribution to assist councils to meet the backlog and underspend on this community infrastructure that has accumulated over many decades and highlighted the value and benefits of such a program.

Projects delivered under this Program will continue to have benefits for the economy and broader community for years to come.

However, extensive feedback from the local government sector indicates more needs to be done. Well-located, well-designed and properly maintained community infrastructure helps produce better quality outcomes for Australian communities as well as facilitating greater social inclusion. It also helps achieve other important social and regional policy outcomes, including attraction and retention of skilled workers, preventative health (through the use of walking tracks, cycle paths, swimming pools, parks and other recreational facilities), social cohesion and tolerance (for example, positive ageing), builds social capital and enables broad-based education and learning (through the provision of galleries, libraries and museums). For some groups in the community, local government facilities are their only means to access ongoing lifelong learning, interact socially and undertake mental and physical health and fitness activities.

ALGA acknowledges the regional funding provided in the past by the Australian Government which has been able to be accessed by councils for infrastructure purposes, but this funding has not been dedicated to councils and only partially addresses the community infrastructure challenges faced.

ALGA therefore urges the Australian Government to commit to specific local government community infrastructure funding in the 2014-15 Budget, at the level of \$300 million per annum over the next four years. This will enable all local councils to plan and deliver

adequate and appropriate community infrastructure across all areas of Australia and enhance their resilience in the face of less favourable economic conditions.<sup>17</sup>

All local and regional communities, especially those in rural and remote Australia, should be able to access the benefits that quality community infrastructure brings. The final report of the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding regional and local community infrastructure: principles for the development of a regional and local community infrastructure funding program* (June 2009), also supports this conclusion.<sup>18</sup>

## **NATIONAL BIKE PATHS PROGRAM**

The National Bike Paths Program (the Program) was established in 2009 as part of the Australian Government's Job Fund with funding of \$40 million available for the construction of new bike paths or for extensions or refurbishments of existing bike paths. The Program was extremely popular with local government and its local and regional communities. The eligible funding bids significantly exceeded the funding that was made available.

The popularity of the Program reflects community interest in cycling in a safe environment that is provided by bike paths in both urban and regional Australia. There are also significant health benefits from increased cycling and proven valuable tourism benefits, especially in regional Australia.

With the end of this program in June 2010, there has been no dedicated Australian Government program to support cycling infrastructure, in spite of the recognised multi-faceted benefits.

ALGA calls on the Australian Government to commit further funding to the National Bike Paths Program at a level of \$30 million per annum over the next four years.

## **Climate Change and Energy Efficiency**

*The Budget 2014-15 should support:*

- **councils to undertake climate change risk assessment** and develop adaptation plans;

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<sup>17</sup> See for example, the Bureau of Infrastructure, Transport and Regional Economics report (June 2009), *Global Economic downturn – some implications for Australian Local Governments*, which concluded '[a]s the Commonwealth's infrastructure spending flows to local economies, their ability to withstand the negative effects of the global downturn and adjust quickly when it has passed, will continue to improve' (p.5) – see <http://www.bitre.gov.au/info.aspx?ResourceId=720&NodeId=111>

<sup>18</sup> See, for example, Recommendation 1, '[t]he Committee recommends that the Government replace the Regional Partnerships Programme with a new program designed to provide ongoing funding support for regional and local community infrastructure'. The report can be accessed at <http://www.aph.gov.au/house/committee/itrdlg/regionaldevelopment/final%20report/Final%20Report.pdf>

- **the implementation of urgent and strategic infrastructure projects in high risk areas** that are identified within local government climate change and adaptation plans or their equivalent plans.
- **funding and other support for local government to replace inefficient street lighting**, specifically through an equal three-way funding arrangement for the total estimated replacement costs of MV80 lighting and implementing regulatory reform initiatives that provide an incentive to the supply sector to upgrade current equipment.

Addressing our changing climate is one of the great challenges for Australia.

Managing the effects of a changing climate will require the efforts of every level of government in Australia and ALGA acknowledges the Government's commitment to a Direct Action approach and the need for planned local solutions to address climate change and enhance the delivery of Direct Action objectives.

While this is an issue which is trans-national in scale, the effects of climate change and many of the measures to address it will be focused at the local level. Noting the scientific consensus that a 2 degrees Celsius rise in the earth's temperature by 2050 is already built into the global climate system, funding to accelerate adaptation to climate change measures should be a priority for the 2014-15 Federal Budget.

Recent work by the Australian Government on Climate Change Risks to Australia's Coasts,<sup>19</sup> as well as work by local government associations and climate risk management assessments by councils funded under the Climate Change Adaptation Pathways initiative, attest to the need for early action on adaptation.

The work reinforces the need for every community to plan for the anticipated impacts of change in the climate system and the flow-through consequences on infrastructure, agriculture, health and wellbeing if communities are to become more resilient.

The risks related to planning and infrastructure for local government going forward, in light of the expected extreme weather events related to climate change, are significant. Local government needs legal certainty that decisions made in the past will not leave councils exposed to unmanageable liabilities. During 2011, ALGA undertook a project to address long-held concerns about the exposure of councils to the legal impacts of climate change, particularly those based on development decisions. ALGA received funding from the Commonwealth Department of Climate Change and Energy Efficiency and engaged respected law firm Baker & Mackenzie to undertake the study. This is an important step, but one that raised many issues, especially for the role of COAG in negotiating consistent national approaches to both adequately address climate risks at the time of application, as

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<sup>19</sup> See the November 2009 report at the Department of Climate Change website, using the links at <http://www.climatechange.gov.au/publications/coastline/climate-change-risks-to-australias-coasts.aspx>

well as to protect councils from legal action where a decision was made on best-evidence and in good-faith.

ALGA views the Government's proposed Emissions Reduction Fund (ERF) as an opportunity to re-engage on energy-efficiency projects, which are proven to reduce emissions from electricity generation, as well as having a long-term economic benefit. Local government was an enthusiastic participant in programs such as Greenhouse Friendly, put in place under the Howard Government as well Low Carbon Communities under the Gillard Government. There has been a recognition of the value of local government's place in such programs and hopes the as the ERF is developed, that that level of participation will be able to be sustained.

A major responsibility for local government is to plan for more sustainable local communities in the long term. However, to be effective, plans must be current, well informed and capable of implementation. ALGA therefore proposes two initiatives to ensure local government services and infrastructure meet local community needs, having regard to the impact of climate change. They are: Planning for the Future and Actions to Adapt Locally.

#### **PLANNING FOR THE FUTURE PROGRAM**

Over recent years, a number of generic resources and general tools have been developed and are available to assist councils to commence work on an examination of climate change issues for their council and local community. However, as councils and their communities have developed increased general awareness of the issues, there is increasing pressure to develop specific actions tailored to specific localities.

ALGA acknowledges the Australian Government's contribution to assisting some councils to commence this task, in particular through the Local Adaptation Pathways Program. To date, this program has assisted more than 60 local governments to undertake risk management assessment studies at a cost to the Australian Government of around \$3 million.

While this is an excellent start, every council should be undertaking this work. All councils across Australia have a range of corporate management, strategic and community plans in place, many of which are required under state legislation. These plans are reviewed regularly and most councils require assistance to assess climate change risks and incorporate more comprehensive climate change and adaptation considerations into their plans.

Building on the Local Adaptation Pathways Program to meet the needs of all councils and communities in Australia could be achieved with an allocation of up to \$40 million to local government over four years. Under this proposal, funding for individual programs would be set at \$100,000 per project and comprise two components: support for conducting climate change risk management assessments along the lines of the current program; and funding to develop an adaptation and implementation plan to address the identified risks.

## **ACTIONS TO ADAPT LOCALLY PROGRAM**

Having identified the need for further funding assistance to help councils to develop climate change adaptation plans, it is noted that a number of councils have already identified a range of important projects. As further assessments are undertaken and plans developed, implementation of these plans will require further resources.

Some plans will identify a range of initiatives and changes to existing practices, and the cost of implementation will be met over time within councils' operating budgets. However, it is expected that a number of significant capital-intensive adaptations will be required that will necessitate upfront capital expenditure. For example, coastal storm activity has demonstrated the vulnerability of areas of high population along the coastline, and the 2009 report on Climate Change Risks to Australia's Coast<sup>20</sup> graphically highlights the scale of the problem. Improving the resilience of infrastructure, and introducing long-term strategies such as the relocation of assets at risk, will be required.

The House of Representatives Committee report, *Managing Our Coastal Zone in a Changing Climate – the Time to Act is Now* (October 2009) recommended that the Australian Government, in cooperation with state, territory and local governments, and in consultation with coastal stakeholders, develop an Intergovernmental Agreement (IGA) on the Coastal Zone, for endorsement by COAG. The IGA is intended to define the roles and responsibilities of each of the levels of government, and include agreed principles based on strategic regional coastal management and landscape/ecosystem coastal zone management. The report recommended establishing a National Coastal Zone Management Unit within the Commonwealth Department of the Environment, Water, Heritage and the Arts, and a National Coastal Advisory Council. Local government is acknowledged throughout the report as being at the front line of coastal management but lacks the capacity and resources to do everything that is required of it. ALGA agrees with the report's finding that "[c]ouncils need to develop clearly defined policies to deal with the impacts of climate change and make the risks of climate change impacts an explicit part of their decision-making criteria to assist in limiting their potential exposure to legal action".<sup>21</sup>

## **ENERGY EFFICIENCY – STREET LIGHTING**

Australians have become more aware of the impacts of climate change on the environment and the broader economy. Councils across Australia have tended to reflect the general community desire to adopt environmentally sustainable practices. Examples include the implementation by some councils of 'carbon neutrality' goals in respect of council operations, establishment of lighting strategies and/or action plans, promotion of energy efficient buildings and the setting of energy reduction targets.

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<sup>20</sup> Op cit at 37 above.

<sup>21</sup> See the Committee report, conclusion 4.111, at

<http://www.aph.gov.au/house/committee/ccwea/coastalzone/report/Final%20Report.pdf>

Within this broad objective, councils have identified a range of means by which they can meet their targets. One example is moving to green ICT policies and practices. Another is to look at options to replace carbon-intensive street lighting on local roads (predominantly Mercury Vapour (MV) lighting) with more energy efficient lighting. Less carbon-intensive lighting can be up to 70 per cent more efficient than MV lighting.

In most cases throughout Australia, the responsibility to provide public lighting on local roads falls to local government (this is sometimes referred to as lighting for 'minor roads'). Generally, state governments are responsible for public lighting on arterial roads, although local government may contribute to the operating costs.

The majority of existing street lighting for local roads uses Mercury Vapour (MV). The lifecycle for MV 80 lights is around 20 years. However, they are carbon-intensive, meaning they consume more energy than newer lighting technology, emit more greenhouse gases and present difficulties relating to their safe disposal given the higher mercury content levels in MV compared to fluorescent lighting.

Alternative energy efficient technologies include linear fluorescent, compact fluorescent lighting, and LEDs. However, councils generally do not own, operate or control street lighting luminaires or street lighting infrastructure (poles, wires and lamps). These are usually owned and managed on behalf of councils by electricity distribution businesses<sup>22</sup> but councils pay them for street lighting services and electricity retailers for the energy consumed. In effect, councils are customers that pay for the lighting equipment and the energy consumed by it. Specific costs for councils include ongoing operation, management and replacement (OMR) costs, installation costs and energy running costs.

Significant benefits could flow to the environment through a national program that assists councils to replace MV lights with more efficient lighting. As an example, when compared with the MV 80, T5 Twin 14W 'Greenstreet' lights (Pierlite manufactured) are 70 per cent more efficient. It has been estimated, for example, that upgrading all minor road MV lights in Victoria to T5 lighting over the next 4 to 5 years from 2009, would reduce Co2-emissions by 1.7 million tonnes (some 25 to 68 per cent)<sup>23</sup> and save 2,200 GWh of electricity use, by 2030.

ALGA welcomes the decision to include energy efficiency in the ERF Green Paper. The arguments in favour of supporting energy-efficiency projects through the ERF are strong and clear, this includes street-lighting projects.

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<sup>22</sup> Councils can choose to own and maintain streetlights in their area but as reported by the Australian Greenhouse Office in 2007, no council has been known to do so in recent years.

<sup>23</sup> See for example, the submission of the Municipal Association of Victoria to the Victorian Government Budget 2009-10, at [http://www.mav.asn.au/CA256C320013CB4B/Lookup/statebudgetsubmission0910/\\$file/submission2009-10statebudget.pdf](http://www.mav.asn.au/CA256C320013CB4B/Lookup/statebudgetsubmission0910/$file/submission2009-10statebudget.pdf).

A nationally consistent approach led by the Australian Government and underpinned by appropriate Australian Government funding assistance would greatly improve lighting efficiency across the country, saving on precious energy supplies and reducing costs that are ultimately charged to ratepayers and business operators.

## **Natural Disaster Arrangements**

*The 2014-15 Budget should include:*

- **\$40 million over four years for a dedicated program** for local government disaster mitigation.
- **\$20 million over four years** to develop the data initiative, and boost local government's capacity.

On average, in Australia each year, 50 people lose their lives as a direct result of natural disasters. A further 1,500 are injured and 250,000 are affected in some way.<sup>24</sup> The economic cost to communities is around \$3 billion.<sup>25</sup> Natural disasters have a significant economic, social, environmental and political impact on communities impacted by such disasters. Natural hazards are occurring more frequently in Australia than in the past as the climate continues to warm and sea levels begin to rise, and they are producing more severe and longer-term consequences.

Local government has been a strong supporter of the Natural Disaster Relief and Recovery Arrangements (NDRRA) under which the costs of restoring government infrastructure (including local government infrastructure) are shared across the levels of government with the Commonwealth committing to meet up to 75% of those costs, subject to adequate insurance arrangements being in place at the jurisdictional level.

Natural disasters often have long term financial and social impacts. This was particularly evident after the Queensland flooding events in 2011 and 2012. Even under the NDRRA arrangements, a number of councils remain unable to adequately fund the restoration of local infrastructure. It should be noted that ALGA appreciates the positive discussions that took place across the levels of government in the aftermath of those disaster. It is important to help insulate communities from the effects of natural hazards. Local government therefore endorses initiatives that build capacity in local and regional communities to identify, mitigate and adapt, as well as respond to natural disasters.

The previous Australian Government Natural Disaster Mitigation Program allocated around \$20 million per annum to achieve this goal. However, funding needed to be matched by local government and state governments on a formula of 1:1:1.

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<sup>24</sup> 2009 and 2011 were exceptional years

<sup>25</sup> Attorney-General's Department report, *Working Together to Manage Emergencies: Strategic Plan to Nationally Enhance Emergency Management in the Community (2004)*.

In recognition of the projections for more widespread and severe impacts of natural disasters exacerbated by climate change (for example, storm surge, increased inundation of land previously not considered at risk, extreme temperature variations and more severe bushfires), local government supported the consolidation of Australian Government funding for disaster mitigation. This subsequently occurred under the Disaster Resilience Australia Package (Federal Budget 2009-10). However, demand by state governments upon the Program has reduced the availability of funding to local government to meet its increasing responsibilities in disaster management and the current level of funding for potential mitigation measures is clearly inadequate compared to the scale of damage and substantial returns for mitigation investments.

A dedicated program for local government, focused on mitigation and providing \$40 million over the next four years is needed so that local government can build resilience and provide community members with the certainty they need in the face of natural disasters.

### **COLLECTING AND STORING VALUABLE DATA**

Local government possesses geospatial and other information that may be critically important when responding to terrorist activity, natural and civil disasters or health-related emergencies. However, this information is not generally accessible to the Australian and state and territory governments due to governance and technological barriers. Intervention is needed so that local government data may be assimilated with other information sources, including those managed by various agencies or emergency management stakeholders.

The Trusted Information Sharing Network for Critical Infrastructure Protection, the National Information Management Advisory Group and the National Counter Terrorism Committee have all recognised this vulnerability. While there are some plans in some jurisdictions, the capacity to integrate local government information into across-jurisdictional emergency management response does not currently exist.

In this context, a proposed “smart network” would support the ability for local government to participate more productively in the emergency management arena.

It is proposed that specific resources be allocated to build an integrated solution that leverages existing infrastructure such as the AusDIN Portal. This “smart network” may integrate virtual spatial information libraries, operational and surveillance data and communication and notification functions. The system will increase intelligence gathering capacity and local government’s ability to coordinate cooperate and respond to major emergencies.

In the event of a regional disaster where there is a total failure of information technology infrastructure, there will need to be continuing operations and delivery of local government services. In this context, the proposal develops and implements a national disaster recovery capability that would:

- be a secondary offsite data repository for councils;
- enable council business functions to be delivered remotely over appropriate telecommunications technologies following a disaster; and
- augment spatial data libraries using an all-hazards emergency management approach, including counter-terrorism, so that complete, accurate information is accessible to agencies responsible for managing crises.

The initiative will assist local government to support communities in their recovery, particularly in the first crucial weeks after a major disaster, where research shows the ongoing psychological and economic implication of the event can be minimised.

## **BETTER CONNECTED AND MORE COHESIVE COMMUNITIES**

### **INDIGENOUS SUPPORT – REMOTE INFRASTRUCTURE**

*The 2014-15 Budget should include:*

- **\$400 million to address the gaps** in the provision of essential and municipal services, especially, the provision of adequate permanent housing and the maintenance of current housing.
- **\$1.6 billion to provide support** to build new and maintain existing infrastructure in remote Indigenous communities.

ALGA has consistently applauded the Australian Government for its commitment to initiatives that aim to close the gap between Indigenous and similar non-Indigenous Australians in the areas of housing, health, early childhood development, education, economic participation and remote service delivery. Initiatives like these are vital if our nation is to overcome the economic and social costs of disadvantage being experienced disproportionately in our Indigenous communities, and position them to be more prosperous and sustainable. ALGA has welcomed more than \$4 billion in funding provided since 2011. These are significant steps to address the conditions that could significantly improve the quality of life of those living, especially in isolated or remote communities.

An audit by the Western Australian Government in 2008 provided a public estimate of \$540 million to address the backlog in housing maintenance in remote Indigenous communities. This estimate did not include the impact of factors like overcrowding, total supply of housing, or the cost of municipal and essential services such as roads, electricity, water, drainage, sewerage and waste removal. ALGA believes that the estimate would be significantly higher if these factors were to be taken into account. Therefore ALGA calls for the provision and maintenance of housing to be treated separately, with funding of \$400 million provided.

ALGA understands that the types of capital works that are required to produce meaningful infrastructure reform in individual Indigenous communities will primarily be local in scale and, as such, do not fit strictly within the remit of Infrastructure Australia. However, when considered in aggregate, such capital works require significant national investment and cannot be funded by these communities alone. Accordingly, ALGA believes that the

provision of essential infrastructure in Indigenous communities across Australia should be considered a national project with national priority, consistent with the Closing the Gap reforms. ALGA supports the proposals suggested by Infrastructure Australia, which suggests \$1.6 billion is required to address gaps in the coverage of vital services, such as water and electricity as well as reliable transport links to other communities and larger population centres.

In addition, collaboration and co-ordination should be encouraged between all levels of government to ensure the provision of services and infrastructure is timely, appropriate and effective.

### **STREAMLINING REGULATION**

The role of regulation in the day to day operations of a council, as well as the role of local government as a regulator are issues local government has had to grapple with increasing flexibility over the past decades.

While it is clear that regulation is absolutely necessary to ensure activities and services are undertaken in compliance with the highest of community expectations, questions have been raised about the risks posed by regulation that is either misapplied or should not be applied at all.

The responsibility of local government as a regulator was addressed by Productivity Commission in 2012.<sup>26</sup> It noted that local government has increasingly taken on a regulatory role on behalf of other levels of government as well as balancing the existing regulatory responsibility it otherwise would have. A key finding of the Commission's report was that there is an appreciable effect on small businesses in particular. It should be noted that it is also well understood that local government is often administering regulation of behalf of the Commonwealth and state governments. With that in mind, ALGA believes that where possible, the regulatory framework local government both operates and operates within, should be streamlined. Work is required, and the Commission's report is a first step to ensure that regulation is applied in a sensible and reasonable manner. One element is reducing red-tape through greater use of online resources.

### **STREAMLINING DEVELOPMENT ASSESSMENT THROUGH eDA**

*The 2014-15 Budget should include:*

- **\$200 million over four years to roll out eDA systems and services** consistent with the National eDA implementation project (eDAIS)

Local government can substantially enhance Australia's productivity and overall sustainability through administering an efficient electronic planning (ePlanning) system. ePlanning encompasses business process models, methodologies, specifications, systems, services and technologies that support all levels of government and the planning sector to

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<sup>26</sup> Performance Benchmarking of Australian Business Regulation: The Role of Local Government as Regulator - Productivity Commission, July 2012

deliver significant efficiencies to business, developers, investors, home owners and the broader community at large.

ePlanning incorporates electronic development assessment (eDA). However it is also designed to contribute to integrated strategic planning and enhanced spatial mapping and stakeholder interface with all types of planning processes ranging from the national to site specific scale

Australian Government funding, through the Howard Government's Regulation Reduction Incentive Fund and subsequent programs, specifically supported progressing the electronic development assessment (eDA) nationally. Additional and targeted Commonwealth investment to assist councils to re-engineer their 'back of office' systems to accommodate e-planning processing would further enable councils to deliver more efficient, user friendly and less costly services to their communities.

ALGA supports the use and adoption by councils of better business technologies and is confident that broadband will be the catalyst for further innovations in this space. More interactive business systems that allow citizens and small businesses to monitor and track progress of their matter through the council decision-making process is consistent with the drive to promote more customer-focused service delivery at all levels of government, maximising the use and take up of the internet and Web 2.0, and delivering further transparency in government.

Funding of \$200 million over 4 years to roll out ePlanning systems and services in line with the national eDA implementation project prepared for COAG by the former Local Government and Planning Ministerial Council (LGPMC) would overcome current barriers to the widespread adoption and implementation of eDA. Such funding would provide better opportunities to work more closely with industry representatives to identify effective and low-cost solutions and continue the good work that has been generated through the HAF program. It would also build the capacity of many of the smaller local councils that need assistance to improve internal administration processes as a prerequisite to delivering effective online systems, and ensure users are sufficiently informed about the planning and assessment process.

ePlanning and eDA can make a significant contribution to microeconomic reform by:

- providing immediate access to all information and documents associated with a development application and planning strategy;
- facilitating good governance because citizens and applicants will have enhanced opportunity to accurately assess the efficiency of both the planning and assessment process and implement ongoing improvements;
- improving document management and enabling standardisation of processes;
- significantly reducing communication time between stakeholders and planning officers more specifically;
- Increase the accuracy and value of data collection (this is especially relevant in land supply and building information) and

- Substantially reducing paper volumes.

## **THE DIGITAL ECONOMY**

Local government has been a strong and consistent advocate for greater connectivity across all communities in the country, and this will continue.

ALGA looks forward to seeing the future development of the Government's broadband network, recognizing that it is essential that local councils are connected to a broadband service which enables them to meet their communities' needs.

Capitalising on the former and current Government's investment in broadband technology is critical to local government and local communities. One of the major potential benefits of high-quality, reliable and affordable broadband will be the ability of all residents to conduct e-business with business and government.

While considerable effort is being made by the Australian Government and state and territory governments, the take-up of e-Government and e-business by local government is significantly inhibited by lack of standardisation, integration with state and federal systems, investment and training. A key area for reform and investment which will provide dividends to communities and business is the support for electronic planning and development systems.