

**Speech to Western Australian Local Government Association AGM
6 August 2014**

Perth Exhibition and Convention Centre
(10 minutes)

Good morning everybody and thank you for the invitation to talk to you today.

Today I want to give you an overview of what's happening at a national level in regard to local government issues.

There are around 560 councils in Australia and they are all unique, providing services and infrastructure to widely differing communities. Local Government areas differ in geography and population and there are significant differences between state and territories. We all face different challenges.

I will look at the major nationwide challenges facing local government, looking at them in light of Federal Government policy and the implications of recent decisions including the Federal Budget and the release of the Terms of Reference for the White Paper on the Reform of the Federation.

The Australian Local Government Association, ALGA, is a federation of state and territory local government associations with the objective of representing local government's interests at a national level and let me first acknowledge the presence of Mayor Troy Pickard and Cr Lynne Craigie (WALGA representatives/ALGA Board members). I want to thank them for the contribution they make to the ALGA Board.

Now I want to just divert from my normal script here - and it is not my job to buy into state affairs or state issues. But I just cannot present this speech without simply acknowledging the challenges local government is faced with here in Western Australia. I understand how difficult the structural reform issues can be, and how state governments frequently deal with the sector when it comes to reform. But I want to say that I have full confidence that your President and state council will work this issue through in your best interests.

Having touched upon our own federation – ALGA – let me now turn to the other Federation – the Australian Federation.

There is a widespread view that the Australian Federation can work better. According to the *Australian Constitutional Values Survey 2012*, the Australian public is generally supportive of a federal structure of government, but does not believe our Federation is functioning as well as it could be.

This is a view shared by the Prime Minister who has announced a White Paper process on the Federation.

The Terms of Reference for the White Paper on the Reform of the Federation were released at the end of June. Mr Abbott said at the time that it was important to clarify the roles and responsibilities for States and Territories, so they are, as far as possible, sovereign in their own sphere.

Any review of the Federation concerns us all and we must not let this become a conversation simply between, and about, the Commonwealth and the states. We must be involved in the process in a bid to forge a consensus between all major political parties and indeed state governments that local government is an equal partner in the Federation and that we should be funded appropriately to undertake the roles and responsibilities that are assigned to us, and that the community expect.

The White Paper will now be a standing item on the COAG meetings agenda while the White Paper process will be overseen by a steering committee comprising the Secretaries and Chief Executives of the Commonwealth Department of Prime Minister and Cabinet, State and Territory First Ministers' departments and the Australian Local Government Association.

It is likely that issues papers might be released during the second half of this year, the Green Paper is expected to be released in the first half of 2015 and the White Paper by the end of 2015.

At the same time, the White Paper on the Reform of Australia's Tax System will also be underway.

The challenge for local government is to be engaged in this process and to influence its outcomes so that local government plays an appropriate part in any new Federal model.

So what is local government's place at this time in the Federation?

You all know the push for a referendum fell at the last hurdle in 2013. The Constitutional change we sought was a narrow one – a change to Section 96 to confirm the capacity of the Commonwealth to directly fund local government.

The threat to the direct funding we receive from the Federal Government has not gone away. The doubts raised in the High Court in the Pape and Williams Cases remain.

The High Court handed down its Williams 2 decision on 19 June and the legal uncertainty remains.

The Commonwealth has provided funding to local government for more than 40 years and these funds are very important to councils for the provision of local services and infrastructure.

The Abbott Government has said it is committed to protecting the direct funding it provides to councils through programs such as Roads to Recovery. The Federation White Paper is not an avenue to seek Constitutional recognition but it is an opportunity to get acknowledgement of the fact that local government does play a role in the Federation and should continue to play a role. That is our challenge and you can all play your part as councils by making submissions to the White Paper process when the time arises.

There are other models of how the Federation should work being touted at present. The National Commission of Audit released its report just before the Budget and it recommends that the Commonwealth should play no role in local government funding. We don't support the Commission of Audit recommendations.

The challenge local government as a whole faces is one of financial sustainability. As councils we can and should seek to be as efficient as we can in delivering services and infrastructure but that is not going to be enough to overcome our funding gap. The PricewaterhouseCoopers report of 2006 put the infrastructure backlog at \$14.6 billion nationally and stated that the backlog was a product of councils with limited revenue bases concentrating on growing demands for recurrent services.

Well, the demands for services are going to keep growing but our revenue is going to remain under pressure. Many smaller councils do not have the option to increase rates – their rates bases are just too low.

We need to look at the match between taxation and service provision. At the aggregate level, local governments raise a little over 40% of their revenue from rates. Many councils of course raise much more from rates. Others raise virtually nothing from rates because they have little or no rateable land. We must fight to protect our rate base. The Henry Report into Tax reform identified rates (and all types of land tax) as a very efficient tax which should be exploited to the full. Unfortunately the states collect two thirds of land tax. We get the rest. And yet there are increasing demands from the other levels of government that local government rates be used to collect levies such as emergency services levies or environmental levies, or suggestions they be used to fund national programs such as the new National Injury Insurance Scheme, expected to begin in 2017. We must be united in opposing these approaches. Our local ratepayers expect to see local services and infrastructure delivered by councils in return for the rates they pay. This is a point we must push strongly in the forthcoming Taxation White Paper, foreshadowed over the next two years.

We must also push to maintain – and restore the level of general revenue support we get from the Commonwealth through FAGs. The Government's decision to freeze indexation for three years from 2014-15 will deprive councils of a cumulative total of \$925 million in FAGs by 2017-18. But in that last year, the value of the grants received by local government will be \$321m less than it would otherwise have been. By the following year, 2018-19, the base will probably be \$335m less. By the year after that it will be about \$350m less. That, colleagues, is the entire value of the Roads to Recovery Program. We have fought to keep the R2R program and instead the Government will be taking the full value of the program away from our core funding. We must fight to have the indexation freeze reversed.

A resolution carried at the National General Assembly in June endorsed this position.

ALGA will continue to lobby on the issue at a national level, but the push must continue at the state association and the local level as well. We must keep this issue in the spotlight and on the agenda of our local MPs.

This issue is not about funding for local governments, it's about funding for local communities and services. Services and infrastructure will suffer, and so will our communities, and the government needs to understand that.

And while I am speaking about lobbying the government, after the failure of the Senate to consider the Land Transport Infrastructure Amendment Bill 2014, which includes the legislation for the R2R funding, in July, I have sought urgent meetings with both the Government and the Opposition to seek their reassurances regarding this vital funding for councils, and the seamless continuation of the R2R program beyond 30 June 2014.

At this stage we expect the legislation to be considered when the Senate returns after the winter break later this month.

And Shadow Minister for Infrastructure and Transport Anthony Albanese has signalled his intention to table a private members bill in the House when Parliament returns regarding the continuation of R2R funding.

It is very much a case of "watch this space" in the coming weeks.

These are the big issues facing local government. I will briefly comment on the other items on the COAG and Federal Government national agenda in relation to local government. They are:

- Productivity;
- Infrastructure;
- The environment;
- Human services; and
- Natural disasters.

First, the Government has highlighted the need to improve productivity, in part through deregulation and infrastructure investment. For local government, the challenge for us on the issue of deregulation is to look at our regulatory roles and make sure they are done as efficiently as possible.

On infrastructure investment, the focus is on the amount of investment and the efficiency of procurement. Local government has a pretty good track record on procurement, especially when compared with major state government projects which are plagued by cost blow outs.

On the amount of investment, however, we face difficulties in the area of community infrastructure, with the infrastructure renewals gap revealed by PwC not likely to decrease.

On the area of transport infrastructure, roads remains the biggest challenge we have and while the R2R program has been maintained to 2018-19 (we hope), as we have just seen, councils will lose almost the same amount of funding from the FAGs. There is a Bridges Renewal Program but it is relatively small - \$60m per annum – and we will have to compete with the state governments for the funds. As road owners and managers, councils must be able to manage their assets and obtain a

fair revenue stream if industry expects to be able to use local roads in a responsible fashion and if we are to overcome the so-called first and last mile access problems.

Let me now turn to the Environment

At the national level, the agenda seems to have two main focuses – creating a one stop shop to streamline the way the Federal Environment Protection and Biodiversity Conservation Act (the EPBC) is administered – and the introduction of the Direct Action Plan to address Climate Change.

Finally let me turn to natural disasters.

The push at the national level by the Federal Government is to review the funding provided to manage natural disasters. The Productivity Commission has been tasked with undertaking a review.

ALGA has long pushed for a change in disaster funding so that more is spent on mitigation in an effort to reduce the impact of disasters.

In conclusion, I have briefly sketched out some of the major challenges local government faces at the national level. There are no easy answers and the questions we face in the next few years through the various White Paper processes go to the heart of how the Federation and Tax systems work and local government's place in them. We all face a very challenging time and ALGA will be doing its best to protect and advance the interests of local governments and the communities they service. But we cannot do it without you.

Thank you