

**Speech to Local Government Association of South Australia
Mayors and Chairpersons Residential Seminar
26 July 2014
The Intercontinental Adelaide**

(1hr 15 minutes - speech plus Q & A time)

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.

And for those of you here for these two days, you will be very aware of the differences and challenges faced by each of our councils.

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.

I will also touch briefly on a number of other items impacting on local government from COAG's and Federal Government's national agenda including:

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

Let me first acknowledge the presence of (LGA SA representatives/ALGA Board members)
I want to thank them for the contribution they make to the ALGA Board.

Having dealt with 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. Around two-thirds of Australians do not believe governments work well together, and believe the Federation needs reform.

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 reduce, and if possible, end duplication and make interacting with governments simpler.

He said 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.

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 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.

Issues papers will be released during the second half of this year, the Green Paper will 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.

ALGA has argued that the Federation White Paper process should not be a search for a perfect Federal model, with the Constitution being the only source material. We need a review which looks at how the Federation actually works in the real world - how the different levels of government – including local government – work together now and can work together better in the future. All three levels of government serve the same people – and they don't care which level of government does what. They just want to see services and infrastructure provided in the most efficient and equitable way possible.

So where does that place local government in the Constitution? or more importantly 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 referendum could only take place on or after 14 September because of the legislative timetable adopted by the previous Government. When the election was brought forward by a week it could not go ahead. We will never know whether it would have been successful. We at ALGA were confident it would have got up but that's immaterial. The fact is the Constitution was not changed and the new Government is not going to put the referendum forward.

Of course 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. From our initial assessment, one reading of the decision is that it potentially has significant implications for all programs under the Financial Framework Legislation Amendment Act 2012, some of which provide funds to councils. Another reading is that it still only directly impacts the Commonwealth provision of School Chaplains. Either way 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. Not just direct funding but also no Financial Assistance Grants. The grants would end but the Commonwealth would pass some taxing power to the states to raise the money which they could then pass to local government. The same goes for health, education, infrastructure and lots of other things the Commonwealth does.

We don't support the Commission of Audit recommendations.

Let's turn to the funding question in more detail.

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. Other councils in major metropolitan areas have more capacity to look at rates increases

but even they recognise that there are growing questions about ability to pay in ageing communities as asset rich homeowners retire and become income poor.

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 next year 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.

As I am sure you are aware, the weight of concern regarding the indexation freeze saw a special urgent motion tabled and carried at the National General Assembly in June.

Restoring indexation for the grants will be an ongoing fight for ALGA, your state and the Northern Territory association and for every council with their local MP.

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 need a concerted effort from all of us to ensure our message about the impact of this decision remains 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.

The Budget also included a decision to end the Supplementary Road Funding provided to South Australian Councils. A further hit to the bottom line of councils in this state.

And while I am speaking about road funding, after the failure of the Senate to consider the Land Transport Infrastructure Amendment Bill, which includes the legislation for the R2R funding, last

week, I have sought urgent meetings with both the Government and the Opposition to seek their assurances regarding this vital funding for councils, and the seamless continuation of the R2R program beyond 30 June 2014.

I have dealt with the two big issues so let me now turn to the National policy agenda outlined by the Abbott Government and the challenges it presents for local government.

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.

Of course, councils often undertake regulatory functions on behalf of the states governments and, as the Productivity Commission found in its report into Local Government as a Regulator in 2012, councils are typically provided with inadequate resources, guidance or training by state governments in undertaking regulatory functions. We have to highlight this point as part of the debate. That is not to say that councils cannot undertake regulation more efficiently. The Productivity Commission Report highlights some best practice examples of good risk-based regulation and I recommend you look at them. But at the end of the day we need to make sure that the goal of deregulation is about getting the right level of regulation, not just less regulation for its own sake. We have regulations for clear public policy reasons of health, safety and avoidance of nuisance. Any deregulation must not impact on the outcomes that regulation must achieve.

There are going to be two main areas of deregulation relevant to us: a focus on housing approvals and small business regulation such as cafes. ALGA will be seeking to emphasise that deregulation must mean better regulation, not poorer regulation.

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. The Regional and Local Community Infrastructure Program under the previous government was highly successful but it should be permanent at around \$350m per annum if we are to get ahead of the challenge. The Regional Development Australia Fund was of some help but it has been terminated and replaced with a Stronger Regions Fund starting in 2015-16. We can expect that the program will have some focus on community infrastructure but at \$200m per year it will not be enough and it will likely be restricted to a few disadvantaged regions.

On the area of transport infrastructure, roads remains the biggest challenge we have and while the R2R program has been maintained to 2018-19, 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.

There are some positive developments on the issue of heavy vehicles and the prospect that reform on charging and investment over the next 5 years or so will lead to local councils getting a share of the taxes paid by heavy vehicle operators, given that local roads are used by these vehicles and councils currently get nothing. But this area is far from settled and the most recent reforms – the implementation of the new Heavy Vehicle National Law and the establishment of the National Heavy Vehicle Regulator – were fraught with problems and served to highlight that many heavy vehicle trips on local roads occur without the council's agreement or even knowledge. 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.

On the EPBC Act councils, like the states, need greater certainty around the Commonwealth's role in approvals and sensible regulatory reform is a good thing. We do need to be wary, however, of reform being used as a Trojan horse to centralise all decision-making power for project approvals of all sorts in the hands of the state governments without mechanisms to ensure that community concerns are addressed.

The Direct Action Plan for Climate Change is being implemented as we speak. Well as far as we can tell. We know Direct Action was contingent upon the removal of the Carbon tax. This was achieved last week. But while the funding for Direct Action is in the Federal Budget, the legislation that sets up the Emissions Reduction Fund i.e. the Amended Carbon Farming Initiative (this is the key platform of Direct Action), has not been passed by the Senate.

So putting to one side this uncertainty the primary concerns for councils are whether the emissions reduction activities undertaken by local government will qualify for support under the Emissions Reduction Fund. While many of our activities may be high quality, reducing emissions in the long run, there are commercial entities which have done little to reduce emissions and which will stand to benefit most. The danger we face is that the program will not engage the community and general support across the community for emissions reduction behaviour at the individual level and the council level will be lost. Community coherence is a fragile thing and it must be maintained.

The strength of our communities at the broader level is also a challenge for councils in terms of the human services they deliver – services to the young, the aged, multicultural groups. Preventative health services and settlement services just to mention a few.

The challenge for councils will remain a recognition that providing any such services must be balanced with meeting core obligations in the areas of infrastructure – roads and bridges and stormwater infrastructure. We cannot make up for what state governments should do – but do not do. Importantly, the need to make hard decisions has just become more difficult as the Federal

Government cuts local government funding and cuts to funding for benefits affecting the most disadvantaged in the community. They may turn to local government for help but our own capacity will be less.

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. There is much that councils do in the area of disaster mitigation already but so much more could be done if the Federal Government invested in mitigation in partnership with local government. 10 years ago the Federal Government had a dedicated mitigation program in partnership with the other levels of government but today that program – the Natural Disaster Mitigation Program – is gone. There is some light on the horizon with the Government reintroducing a Bushfire Mitigation program funded for 3 years at \$5 million per year – but we need much more.

Remarkably it is in the Commonwealth's interest to fund this mitigation since it ends up picking up most of the costs of relief and recovery through the Natural Disaster Relief and Recovery Arrangements (NDRRA) so you would think they would jump at the chance to invest up front in mitigation. The challenge for councils – and the states however – is that the Commonwealth may be thinking of limiting or ending the NDRRA and deciding that disaster costs are the responsibility of the states and that they must fund more of the costs of recovery and relief from their own sources. That is what the Commission of Audit seemed to be recommending in this area. I hope you will join ALGA in facing this challenge through the Productivity Commission process.

In conclusion, I have painted a sketch of 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.