



AUSTRALIAN LOCAL
GOVERNMENT ASSOCIATION

SUBMISSION TO THE
2016-17 FEDERAL BUDGET

28 JANUARY 2016

Investment in an Innovative and Prosperous Future

SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET

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The Hon Scott Morrison MP
Treasurer
Parliament House
CANBERRA ACT 2600
By email: prebudgetsubs@treasury.gov.au

Dear Treasurer

ALGA 2016-17 BUDGET SUBMISSION

The Australian Local Government Association (ALGA) is pleased to present this Submission to highlight local government's priorities as discussions about the 2016-17 Federal Budget commence.

ALGA acknowledges the challenging fiscal environment facing the Australian Government and the Government's commitment to return the Budget to a surplus by 2020-21. ALGA notes with increasing concern the stubbornly high level of unemployment, particularly youth unemployment in rural and regional Australia. ALGA also notes the growing income disparity across Australia's regions and the importance of supporting jobs growth, innovation and opportunities for all Australians regardless of where they live. For these reasons ALGA believes the 2016-17 Federal budget should prioritise investment in infrastructure, investment in job creation, particularly in rural and regional communities, continued support for essential community

services, and initiatives that will increase Australia's international competitiveness and the sustainability of local communities.

Local Government was disappointed by the decision in the 2014-15 Budget to pause the indexation of Financial Assistance Grants (FAGs) for three years. This decision will see FAGs frozen at their current level until 2017-18 and will result in a permanent reduction in the FAGs base by an estimated 13 per cent. The quantum of FAGs will be reduced by more than \$300 million per year. Councils in rural and regional areas are relatively more dependent on FAGs and ALGA expects that those councils, in particular, will be more negatively impacted by the reduction in FAGs. ALGA asks the Australian Government to restore the indexation of FAGs in the 2016-17 Budget and to consider the adequacy of the quantum of FAGs and the indexation methodology in the future.

ALGA acknowledges the significant injection of funding for Roads to Recovery and other infrastructure programs, announced since the 2015-16 Budget was handed down. This was warmly welcomed by councils, but the additional tied infrastructure funding cannot offset the general purpose funding foregone due to the indexation freeze of FAGs. The doubling of Roads to Recovery funding recognises the challenge faced by councils in managing the local roads network and ALGA believes that the funding for Roads to Recovery should be permanently doubled and the Bridges Renewal program also made permanent. In the coming budget, ALGA sees a need for additional targeted strategic funding with a focus on freight to address both the challenges and opportunities in first-mile and last-mile regional roads projects to drive productivity improvements. This also extends to the need for a renewed focus on the benefits of investment in community infrastructure.

ALGA supports the restoration of fairer roads funding for South Australia. The additional funds (\$17.5 million in 2013-14) provided to South Australian councils from 2004 to 2014 recognised the manifestly unfair treatment of South Australian Local Government in the provision of local roads funding from the Federal Government. The strong case and need for this additional

Investment in an Innovative and Prosperous Future

funding remain unchanged and ALGA believes that the Federal Government should reinstate this additional funding, with such funding indexed annually in line with the indexation of the Financial Assistance Grants.

Finally, ALGA calls in this Submission for additional investment in natural disaster mitigation to improve the resilience of local communities and reduce the escalating relief and recovery costs of disaster events. This includes funding to help councils plan for adapting to the impacts of climate change and support work to ensure planning decisions are based on best evidence, as well as seeing the opportunity for collaboration and innovation in this space.

The 2016-17 Budget should include a commitment to:

- Immediately restore the indexation of the Financial Assistance Grants;
- Establish a program directed at regional road projects, funded at \$200 million per annum over the next five years, to ensure that first mile/last mile and freight connectivity issues are addressed to improve national productivity;
- Restore fairer roads funding for South Australia by reinstating the additional roads funding for South Australian councils of \$17.5 million per annum.
- Make the Bridges Renewal Program permanent;
- Fund community infrastructure at a cost of \$300 million per annum for the next five years to stimulate growth over the longer term and build community resilience;
- \$100 million over four years to support local governments' capacity to manage their own unique climate risks;
- Fund a targeted disaster mitigation program at a level of \$200 million per annum;
- Include betterment funding as a core element of Natural Disaster Relief and Recovery Arrangements (NDRRA).

Beyond 2016-17, the Federal Government should commit to:

- Returning the quantum of the Financial Assistance Grants to a level equal to at least 1 per cent of Commonwealth tax revenue and implementing a revised indexation methodology which better reflects the cost increases faced by councils;
- Provide appropriate resources to aid in the prevention of cost shifting, including working towards a renewed Inter-governmental Agreement;
- A permanent doubling of Roads to Recovery funding; and
- A Review of the new arrangements for funding municipal services in indigenous communities to ensure that services are meeting the needs to communities and that there has not been a shifting of responsibilities and costs on to local governments.

ALGA understands the fiscal challenges facing the Commonwealth, however, expenditure on priorities does not wait for a convenient moment. Indeed, ALGA would argue that in times of fiscal constraint Governments should focus on community priorities and investment in productive infrastructure through the most efficient processes to deliver programs. The direct funding of local government to deliver infrastructure and services is appropriate in the current environment.

I commend this Budget submission to you.

Yours sincerely



Mayor Troy Pickard
PRESIDENT



SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET

28 JANUARY 2016

PREAMBLE

The Australian economy is growing, albeit in an uneven manner. With lower economic growth in China and European stagnation, the international outlook remains fragile. This has been evidenced by adjustments to Budget outcomes and forecasts in recent years. The Australian Local Government Association (ALGA) understands the budgetary pressures which the Government faces and its commitment to bring the Budget back to surplus.

Building a strong Budget surplus over the coming years will require difficult choices and discipline, but those constraints should not be at the expense of support for essential community services, investment in infrastructure and initiatives that are vital to increase Australia's international competitiveness and the sustainability of local communities. ALGA supports the Government's agenda of boosting productivity, reducing red and green tape and investing in vital national infrastructure projects. ALGA believes that these goals will be easier to achieve if the Government's priorities include a complementary focus on support for our communities.

Local Government welcomes the Australian Government's renewed focus on innovation. The sector has a long history of early-adoption of new technologies and practices and using its own resources to drive local innovation, based on local knowledge and expertise.

In this Budget Submission, ALGA proposes some initiatives for the 2016-17 Budget which reflect the immediate priorities of local government, and some further initiatives for future years which the Government may consider as fiscal conditions improve.

LOCAL GOVERNMENT NATIONALLY

Local Government nationally employs just under 189,000 Australians (around 10 per cent of the total public sector),¹ owns and manages non-financial assets with an estimated written down value of \$354 billion (2013-14)², raises around 3.4 per cent of Australia's total taxation revenue per annum³ and has annual operational expenditure of around \$33 billion (2013-14), just under 6 per cent of total public sector spending.⁴

Local Government's expenditure is directed towards the provision of local services across the nation. These services include: housing and community amenities; transport and communications; recreation and culture and general public services.⁵

Independent research commissioned by ALGA in 2012 shows that a majority of Australians agree that local councils play an important role in their lives.⁶ It should be noted that at an aggregate level, local government undertakes its work while being more than 80 per cent 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 consequently much more reliant on external funding sources. Adequate grant levels are absolutely critical to these authorities being able to function in the best interests of their residents and to equalise the availability of services and infrastructure 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 of 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.

1 ABS Cat No. 6248.0.55.002 Employment and Earnings, Public Sector, Australia 2013-14.

2 ABS Cat No. 5512.0 Government Finance Statistics, Australia.

3 ABS Cat No. 5506.0 Taxation Revenue series.

4 ABS Cat No. 5512.0 Government Finance Statistics, Australia.

5 Op cit at 4 above.

6 Unpublished research 2012.

MAINTAINING EFFECTIVE SERVICE DELIVERY

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) to the states and territories made under the *Local Government (Financial Assistance) Act 1995* (Cth).

The decision in the 2014-15 Federal Budget to freeze the indexation of the FAGs until 2017-18 will have significant long-term impacts on councils across the country and will affect their capacity to deliver high quality services to communities, indeed those effects are already being felt. Almost \$1 billion will be withdrawn from communities through this cut over the Budget cycle, with the aggregate level of FAGs permanently reduced by an estimated 13 per cent.

The immediate restoration of indexation of FAGs is a priority for ALGA. Over half of all councils in Australia have passed resolutions calling for the restoration of this indexation, as well as providing numerous examples of the real-world impact, particularly for rural and remote councils, of this freeze. A number of rural councils (including West Wimmera, Wodonga and Toowong in Victoria, Collie in WA and South Burnett in Queensland), have informed ALGA that as a result of the FAGs freeze they will be forced to postpone infrastructure work, look at substantial increases in the fees for services such kindergartens, reduce the hours of operation of council facilities and look at possible rates increases (although for many councils a limited rates base means the foregone FAGs cannot be made up through rate increases). A range of case studies on the impact of the FAGs freeze can be found on the ALGA website.⁷

ALGA's main longer term priority is for an increase in the FAGs to return funding to the level of previous years and for a move to an indexation methodology which better reflects increases in local government costs.

⁷ www.alga.asn.au

SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET

28 JANUARY 2016

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 also 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 partnership.

THE INADEQUACY OF THE FINANCIAL ASSISTANCE GRANTS FOR LOCAL GOVERNMENT

The Commonwealth has noted that around 88 per cent of Local Government's revenue in 2011-12 was from its own sources.⁸ 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 rate revenue capacity,⁹ 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 Report¹⁰ that averages can mask the true situation of specific local councils and that individual councils have differing abilities to raise revenue. The Productivity Commission has previously 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 Commission further concluded that some councils will always remain highly dependent on FAGs, notwithstanding they might have fully utilised their own-source revenue raising capacity.¹¹ 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 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.

The decision to freeze FAGs indexation until 2017-18, and therefore permanently reduce funding to councils into the future by more than \$300 million per annum, will impact most on vulnerable and grant-dependent

councils and their communities. As the responsibilities of councils and the costs of delivering services increase, these reductions will have a real and growing impact which undermines future service delivery.

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.¹²

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.

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.

In 2013-14, FAGs amounted to around 0.67 per cent of total Commonwealth taxation revenue, continuing a long trend of FAGs falling as a proportion of the Commonwealth's taxation revenue. The decision to freeze the indexation of FAGs until 2017-18 will see that proportion of revenue drop to less than 0.60 per cent. By contrast, these grants represented around 1 per cent of total Commonwealth taxation revenue in 1995-96 and 1996-97. This dramatic

8 Op cit at 2 above, p.8.

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

10 Op cit at 2 above, p.8.

11 Op cit at 10 above, Finding 5.5, p.xxxviii.

12 See ABS Cat No. 5512.0 Government Finance Statistics series.

and continuing decline in general purpose funding means that councils are struggling to maintain appropriate local government services. The current base funding of approximately \$2.3 billion should be increased to better reflect the actual cost of local government services and infrastructure and should be restored to a level equal to at least 1 per cent of Commonwealth taxation revenue.

The escalation or growth methodology for the FAGs also requires revision. The methodology is based on population growth and inflation and has remained unchanged for decades, despite significant changes in our economy such as the introduction of GST and real wages growth. The costs of councils are not driven by the same factors as the CPI, accordingly escalation by the CPI is inadequate to maintain the real value of the grants. 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 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, as consequence, population estimates were downgraded. 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 a further 2.5 per cent, 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 phase in any future substantial adjustments.

Although horizontal fiscal equalisation is one of seven federally legislated principles for the allocation of FAGs, the Productivity Commission 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'¹³.

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 review processes 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 an ageing population 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 better reflects the cost of delivering local government services and community infrastructure, having regard to relevant major economic cost drivers including the costs of labour. This 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

SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET

28 JANUARY 2016

¹³ PC report, op cit at 10 above, Finding 5.6, p.xxxviii.

SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET

28 JANUARY 2016

to meet community demand for more intensive 'human services to the people', whilst maintaining its increasingly ageing local community assets. In 2006 the backlog was estimated to be \$14.5 billion nationally and today the backlog is estimated to be beyond \$20 billion. 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 involves social, 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 greatly welcomed, 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 a change to 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. Reform 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.¹⁴

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.

A STRENGTHENED INTERGOVERNMENTAL AGREEMENT TO PREVENT COST SHIFTING

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.

A greater focus on cost shifting is especially relevant as discussions about the roles and responsibilities of each level of government continue in the context of Federation and Taxation reform processes.

Withdrawal of funding once councils have accepted a service delivery role exposes 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 other levels of government.

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.¹⁵ The effects of cost shifting to Local Government from other levels

¹⁴ 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.'

¹⁵ House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003.

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.

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.

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 for Local Government to increase own-source revenue in order to meet the additional costs that come with new responsibilities.

A focus on Federation reform provides an opportunity to consider the roles and responsibilities of each level of government and the importance of ensuring they are adequately resourced to carry out those roles. As part of this process, ALGA believes that the Cost Shifting 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.

The 2016-17 Budget should include a commitment to:

- *Immediately restore the indexation of the Financial Assistance Grants.*

Beyond 2016-17, the Federal Government should commit to:

- *Increase the quantum of the base and reform the indexation methodology of the Financial Assistance Grants; and*
- *Provide appropriate resources to aid in the prevention of cost shifting, including working towards a renewed Inter-governmental agreement.*

SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET

28 JANUARY 2016

ROADS, TRANSPORT AND INFRASTRUCTURE

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, community facilities and markets.

The local road system has developed and expanded so that its 640,000 kilometres is around 75 per cent by length of all roads in Australia and a significant component of the national transport system. The National Transport Commission has estimated that 36 per cent of all kilometres travelled in Australia are on local roads. The economic importance is demonstrated by 30 per cent of medium vehicle kilometres and 16 per cent of heavy vehicle kilometres being on local roads.

**SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET**

28 JANUARY 2016

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 in 2012-13 was estimated by the Bureau of Infrastructure, Transport and Regional Economics to be just over \$6.4 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 five 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 is breaking down. This is an untenable position for Australia.

MAINTAINING OUR INFRASTRUCTURE NETWORK

Since 2000, the Australian Government has recognised that the needs of local roads are beyond the financial capacity of Local Government and has provided 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 more than \$6 billion in funding 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. It is also a testament of the effectiveness of the direct relationship between the Australian Government

and local councils. The major outcomes of investment under the Program include improved productivity and road safety, both national objectives.

There is of course 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. Councils are under great pressure to maintain their vital roads expenditure, especially in South Australia where councils also lost the additional roads funding provided by the Australian Government to ensure a fairer level of roads funding for South Australia.

ALGA welcomed the decision to extend Roads to Recovery, currently funded at \$350 million per annum. While this measure was a positive step, it is vital that this program be supported and protected for the long-term by making the funding permanent in legislation.

ALGA also welcomed the decisions to increase funding to the Roads to Recovery and Black-Spot programs in 2015-16. This will enable councils to increase funding to key projects but this additional funding is being provided at a time when the general purpose funding for council activities being reduced by around 13 per cent through the decision to freeze FAGs (including the identified local road component). ALGA estimates that the permanent reduction in the FAGs base will exceed the full value of the Roads to Recovery program by around 2020. As fiscal circumstances permit, ALGA urges the Government in future budgets to commit to permanently doubling Roads to Recovery expenditure to \$700 million per annum.

ALGA strongly applauds the funding of the Bridges Renewal Program from 1 July 2014 at a level of \$300 million over five years. This program is an initiative with the potential to help councils address the very substantial problems affecting local bridges, especially timber bridges, but we recognise the magnitude of the task facing councils and the interest of state governments in using Federal funding to address state infrastructure. ALGA believes there is strong evidence to show that this program is not only

attractive, but effective. Therefore, ALGA is calling for this program to be made permanent in legislation. This step will enable long-term projects and long-term security of funding.

Local Government, particularly in South Australia, was dismayed by the decision to end the additional roads grant that had been provided for local roads in South Australia. This decision has placed pressure on local authorities and ALGA is calling for the immediate re-instatement of the additional roads funding of \$17.5 million per annum to South Australian councils.

BOOSTING AUSTRALIA'S FUTURE INFRASTRUCTURE CAPACITY

ALGA strongly supports the Government's focus on improvements in productivity through investment in infrastructure. Local roads play a vital role and the issue of first and last mile access is an important factor in the productivity equation. We must unlock local and regional productivity improvements through investment that improve access for freight vehicles and connectivity between local roads and preferred state and national freight routes.

To achieve these improvements, ALGA calls for the creation in the 2016-17 Budget of a program funded at \$200 million per annum over the next five years. The new program would have the specific objective of investing in identified local projects which would achieve real, measurable productivity outcomes through improved access and connectivity, specifically in rural and regional Australia.

The 2016-17 Budget should include a commitment to:

- *Establish a program directed at regional road projects, funded at \$200 million per annum over the next five years to ensure that first mile/last mile and freight connectivity issues are addressed to improve national productivity;*
- *Make the Bridges Renewal Program permanent; and*
- *Restore fairer roads funding for South Australia by reinstating the additional roads funding of \$17.5 million per annum to South Australian councils.*

Beyond 2016-17, the Federal Government should commit to:

- *A permanent doubling of Roads to Recovery funding.*

COMMUNITY AND REGIONAL INFRASTRUCTURE

Local Government is responsible for billions of dollars worth of community infrastructure, excluding 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 in 2008-09 and 2009-10 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 the value and benefits of such a program were evident to all. Projects delivered under the 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 that more needs to be done. Well-located, well-designed and properly maintained community infrastructure helps produce better quality outcomes for

SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET

28 JANUARY 2016

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 therefore urges the Australian Government to commit to specific local government community infrastructure funding in the 2016-17 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.¹⁶ Over the past few months, ALGA has collected hundreds of examples where relatively small investments in restoring facilities or infrastructure will see significant benefits to the quality of life in local communities.

The 2016-17 Budget should include a commitment to:

- *Fund community infrastructure at a cost of \$300 million per annum for the next five years to stimulate growth over the longer term and build community resilience.*

¹⁶ 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>

BUILDING RESILIENCE AND SUSTAINABILITY

NATURAL DISASTER ARRANGEMENTS

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.¹⁷ The economic cost to communities is estimated by Deloitte Access Economics to be in excess of \$6 billion per annum.¹⁸

Natural disasters have a significant economic, social, environmental and political impact on communities. Natural hazards are occurring more frequently in Australia than in the past as the climate continues to warm and sea levels 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 per cent of those costs, subject to adequate insurance arrangements being in place at the jurisdictional level. It is important that the Commonwealth's commitment and level of support for the NDRRA is not reduced.

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. ALGA appreciates the positive discussions that took place across the levels of government in the aftermath of those disasters. It is important to help insulate communities from the effects of natural hazards. Local Government therefore endorses

¹⁷ 2009 and 2011 were exceptional years.

¹⁸ Attorney-General's Department report, *Working Together to Manage Emergencies: Strategic Plan to Nationally Enhance Emergency Management in the Community* (2004).

MANAGING OUR CHANGING CLIMATE

Managing the effects of a changing climate will require the efforts of every level of government in Australia. The outcome of the Conference of Parties 21 (COP 21) held in Paris in December 2015 sets the scene for increased efforts to address climate change and ALGA strongly supports the Australian Government's commitment, through COP21, to holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change.

While much can be done to reduce greenhouse gas emissions in all parts of Australia, ALGA welcomes COP21's acknowledgement of the importance of sub-national governments, including local governments, in addressing and responding to climate change. The role for climate-ready and climate-smart cities is particularly important.

The establishment of the Emissions Reduction Fund sets the Government's preferred path for mitigation although there are concerns among local governments that councils will find it difficult to compete for available funding for mitigation projects.

Local government in Australia has a proven track record in addressing climate change and our cities will play an important role in helping the Australian Government achieve internationally agreed climate change targets. Many councils have responded by adopting proactive climate change strategies to reduce emissions and to adapt to unavoidable climate change impacts. However, they need assistance to implement on-ground projects and other key aspects of these strategies. Local Government, working in partnership with the Australian Government, can deliver highly effective climate change projects that can mitigate the production of greenhouse gas emissions in cities, and also greatly assist the community to be better prepared and better able to adapt to future climatic conditions.

For other, less prepared councils, particularly smaller councils in regional areas, small grants may also be needed to support them to consult with their

initiatives that build capacity in local and regional communities to identify, mitigate and adapt, as well as respond to natural disasters.

This extends to the issue of betterment funding. It is common sense that in the face of an increasing occurrence of extreme weather events, simply rebuilding infrastructure to its original specifications and condition is not sufficient. Betterment funding is a strong example where a targeted additional investment will produce savings in the long term, simply because the infrastructure is now built to withstand its new situation.

In its recent inquiry into natural disaster funding the Productivity Commission noted the value of disaster mitigation expenditure and raised the idea of a \$200m per annum mitigation program. ALGA has long called for a Federal commitment to higher and more targeted mitigation funding to assist local government to strengthen the resilience of local communities. The value of investment in mitigation was also highlighted by the Australian Business Roundtable for Disaster Resilience and Safer Communities in its 2013 White Paper.

The 2016-17 Budget should include a commitment to:

- *Maintain the levels of support for the Natural Disaster Relief and Recovery Arrangements (NDRRA);*
- *Fund a targeted disaster mitigation program at a level of \$200 million per annum; and*
- *Include betterment funding as a core element of the NDRRA.*

SUBMISSION
TO THE
2016-17
FEDERAL
BUDGET

28 JANUARY 2016

community to undertake climate vulnerability assessments and develop adaptation plans as well as to fund implementation.

ALGA is calling for a \$100 million program over four years program to enhance local government resources for work with local businesses and communities in implementing local and regional climate change plans and to provide small grants to local governments that have not yet developed Local Climate Change Adaptation Plans.

SUPPORTING LONG-TERM DECISION MAKING

Climate change is a long-term issue, with long-term consequences that cover social, economic and legal concerns, as well as core environmental ones. A key concern for local government is the risk to councils from legal actions stemming from planning decisions. A 2011 report from Baker and Mackenzie undertook a broad analysis of the issue and highlighted a fundamental need for councils to ensure that decisions are based on the best-evidence available. Ever since the emergence of climate change as an appreciable risk and necessary consideration in planning decisions, there has been a lack of clarity and organisation of the knowledge and expertise available.

ALGA has been active in supporting bodies such as the Commonwealth Scientific Industrial Research Organisation, the Bureau of Meteorology and the National Climate Change Adaptation Research Facilities and their work to provide the data sets that councils rely on every day. These organisations are examples of Government investment leading to innovation and increasing knowledge that benefits the wider community. Councils are also skilled and experienced at collating and developing their own data-sets, especially when dealing with threats from extreme weather events. ALGA urges the Australian Government to increase support for the collection, retention and maintenance of climate vulnerability data sets. It is important that this data is transformed into easily accessible and utilised products, that all stakeholders and decision-makers are able to access locally relevant and academically rigorous information to aid them in their work.

The 2016-17 Budget should include a commitment to provide:

- *\$100 million over four years to support local government's capacity to manage its own unique climate risks.*

INDIGENOUS MUNICIPAL SERVICES

ALGA has consistently applauded the Australian Government for its commitment to initiatives that aim to close the gap between Indigenous and 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 as positive steps to address the conditions that could significantly improve the well-being of those living in isolated or remote communities.

The decision of the Federal Government in the second-half of 2014 to return primary responsibility for remote service delivery to the states has caused concerns in remote communities. There are questions about whether sufficient resources have been made available to meet the needs of communities and there are concerns that additional and unfunded responsibilities may be placed on local governments to provide municipal services in remote communities.

It is important that the reforms in this area achieve the best outcomes for communities and ALGA calls on the Federal Government to commit to review of the new arrangements, once they have been bedded down, to ensure that the intended outcomes have been achieved.

Beyond 2016-17 the Federal Government should commit to:

- *A review of the new arrangements for funding municipal services in Indigenous communities to ensure that services are meeting the needs to communities, are focused on improving well-being and that there has not been a shifting of responsibilities and costs on to local governments.*

CONCLUSION

ALGA recognises the challenges currently facing the Government, however we strongly believe that there should be initiatives in the 2016-17 Budget to ensure continued support for essential community services and investment in infrastructure to increase Australia's competitiveness and strengthen the resilience of communities in the face of natural disasters and climate change. These initiatives should be complemented by additional actions in future budgets as fiscal conditions permit.

The 2016-17 Budget should include a commitment to:

- Immediately restore the indexation of the Financial Assistance Grants;
- Establish a program directed at regional road projects, funded at \$200 million per annum over the next five years, to ensure that first mile/last mile and freight connectivity issues are addressed to improve national productivity;
- Restore fairer roads funding for South Australia by reinstating the additional roads funding for South Australian councils of \$17.5 million per annum.
- Make the Bridges Renewal Program permanent;
- Fund community infrastructure at a cost of \$300 million per annum for the next four years to stimulate growth over the longer term and build community resilience;
- \$100 million over four years to support local governments' capacity to manage their own unique climate risks;
- Fund a targeted disaster mitigation program at a level of \$200 million per annum; and
- Include betterment funding as a core element of Natural Disaster Relief and Recovery Arrangements (NDRRA).

Beyond 2016-17, the Federal Government should commit to:

- *Returning the quantum of the Financial Assistance Grants to a level equal to at least 1 per cent of Commonwealth tax revenue and implementing a revised indexation methodology which better reflects the cost increases faced by councils;*
- *Provide appropriate resources to aid in the prevention of cost shifting, including working towards a renewed Inter-governmental Agreement;*
- *A permanent doubling of Roads to Recovery funding; and*
- *A Review of the new arrangements for funding municipal services in indigenous communities to ensure that services are meeting the needs to communities and that there has not been a shifting of responsibilities and costs on to local governments.*

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TO THE
2016-17
FEDERAL
BUDGET

28 JANUARY 2016



SUBMISSION TO THE
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28 JANUARY 2016