



AUSTRALIAN LOCAL
GOVERNMENT ASSOCIATION



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2015-16 FEDERAL BUDGET SUBMISSION

FEBRUARY 2015

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February 2015 • By email: prebudgetsubs@treasury.gov.au

The Hon Joe Hockey MP
Treasurer, Parliament House, Canberra ACT

Dear Treasurer

ALGA 2015-16 Budget Submission

The Australian Local Government Association (ALGA) is pleased to present this Submission for consideration in the preparation of the 2015-16 Federal Budget.

ALGA acknowledges the challenging fiscal environment facing the Australian Government and the Government's commitment to return the Budget to a surplus by the end of the decade. ALGA believes, however, that we need to ensure continued 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.

Local Government was dismayed by the decision in last year's 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 about 13 per cent. The quantum of FAGs will be reduced in real terms 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 negatively impacted by the reduction in FAGs. ALGA is calling on the Australian Government to immediately restore the indexation of FAGs in the 2015-16 Budget and to consider the adequacy of the quantum of FAGs and the indexation methodology in the future.

ALGA acknowledges that there will be a one-off doubling of Roads to Recovery funding in 2015-16. This will be welcomed by councils but it will be offset by the foregone indexation of FAGs. The doubling of Roads to Recovery funding recognises the challenge faced by councils and ALGA believes that the funding for Roads to Recovery and the bridges renewal program should be permanently doubled in the future as circumstances permit. In the coming Budget, however, ALGA sees a need for additional targeted funding through the establishment of a \$100 million Strategic Regional roads program aimed at boosting productivity through investment in first mile/last mile projects.

Finally, ALGA also 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 and for funding to help councils to plan for adapting to the impacts of climate change.

The 2015-2016 Budget should include a commitment to:

- *Immediately restore the indexation of the Financial Assistance Grants;*
- *Establish a \$100 million Strategic Regional Roads Program to ensure that first mile/last mile and freight connectivity issues are addressed to improve national productivity;*
- *Fund regional and 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;*
- *Fund a disaster mitigation program at a level of \$200 million per annum; and*
- *Provide \$40 million over four years to support councils to undertake climate vulnerability assessments and develop adaptation plans.*



PREAMBLE

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Beyond 2015-16, the Federal Government should commit to:

- *A review of the adequacy of the base and indexation methodology of the Financial Assistance Grants;*
- *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;*
- *Doubling the program funding for bridge renewal; and*
- *Review the new arrangements for funding municipal services in indigenous communities to ensure that services are meeting the needs of 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 but 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 infrastructure and should also look to the most efficient processes to deliver programs. The direct funding of local government to deliver infrastructure and services makes sense in the current environment.

I commend this budget submission to you.

Yours sincerely

Mayor Troy Pickard
PRESIDENT ALGA

The Australian economy is growing, albeit in an uneven manner. With reduced 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 given the commitment to bring the Budget back to surplus.

Building a strong Budget surplus over the coming years will require difficult choices and considerable 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 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 Government's goals will be easier to achieve.

In this Budget Submission, ALGA proposes some initiatives for the 2015-16 Budget, which reflect the immediate priorities of local government, and some further initiatives for future years which the Government can consider as fiscal conditions improve.

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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 estimated at \$335 billion (2012-13)², raises around 3.5 per cent of Australia's total taxation revenue per annum³ and has annual expenditure of around \$32 billion (2012-13), 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 social security and welfare.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 around 90 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 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 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 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.

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) made under the *Local Government (Financial Assistance) Act 1995* (Cth).

The decision in last year's 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. Almost \$1 billion will be taken out of communities through this cut over the Budget out years and the aggregate level of FAGs will be permanently reduced by around 13 per cent.

The immediate restoration of indexation of FAGs in the 2015-16 Budget is ALGA's top priority.

Once indexation has been restored, ALGA will advocate for a thorough review into the adequacy of the FAGs, particularly the quantum and indexation methodology.

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.⁷ 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,⁸ 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 Report⁹ 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.¹⁰ 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.

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7 Op cit at 2 above, p.8.

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

9 Op cit at 2 above, p.8.

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

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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.¹¹

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.

As a proportion of total Commonwealth taxation revenue in 2013-14, FAGs amounted to around 0.67 per cent, continuing a long trend of reduced FAGs 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 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 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). The costs of councils are not driven by the same factors as the CPI and 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, 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 per cent 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

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



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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 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'¹².

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 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. 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. In 2006 the backlog was 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 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 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.¹³

¹² PC report, op cit at 10 above, Finding 5.6, p.xxxviii.

¹³ 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.'

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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.

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.

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.¹⁴ 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.

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 to local government to increase own-source revenue in order to meet the additional costs that come with responsibility shifting.

¹⁴ House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003.



ROADS, TRANSPORT AND INFRASTRUCTURE

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The White Paper on the Federation 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 2015-16 Budget should include a commitment to:

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

Beyond 2015-16, the Federal Government should commit to:

- *A review of the adequacy of the base and 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.*

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 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 vehicles and 16 per cent of heavy vehicles kilometres 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 per cent of local government aggregate expenditure (\$3,127 million) in 2007-08. An equivalent figure in 2015-16 would be well 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 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.

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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 funding (more than \$6 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. 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 and councils are under great pressure to maintain their vital roads expenditure, especially in South Australia where councils also lost their supplementary roads funding.

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 that this program is supported and protected for the long-term by making the funding permanent.

ALGA also welcomed the decision to increase funding to the Roads to Recovery and Black Spot programs, through a one-off doubling 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 is 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 a bridge 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 the Government should look to doubling the \$60 million per annum program in future years to allow greater productivity benefits to be realised.

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 reintroduction of a Strategic Regional Roads Program in the 2015-16 Budget, funded at \$100 million per annum, with the specific objective of investing in identified local projects which would achieve real, measurable productivity outcomes through improved access and connectivity.



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The 2015-16 Budget should include a commitment to:

- *Establish a \$100 million Strategic Regional Roads Program to ensure that first mile/last mile and freight connectivity issues are addressed to improve national productivity.*

Beyond 2015-16, the Federal Government should commit to:

- *A permanent doubling of Roads to Recovery funding;*
- *A doubling of the program funding for bridge renewal.*

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 therefore urges the Australian Government to commit to specific local government community infrastructure funding in the 2015-16 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.¹⁵

The 2015-16 Budget should include a commitment to:

- *Fund regional and community infrastructure 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.*

¹⁵ 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.¹⁶ The economic cost to communities is estimated by Deloitte Access Economics to be in excess of \$6 billion per annum.¹⁷

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 per cent 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 disasters. 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.

In its recent inquiry into natural disaster funding the Productivity Commission noted the value of disaster mitigation expenditure and raised the idea of a \$200 million 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 2015-16 Budget should include a commitment to:

- *Fund a targeted disaster mitigation program at a level of \$200 million per annum.*

¹⁶ 2009 and 2011 were exceptional years.

¹⁷ Attorney-General's Department report, *Working Together to Manage Emergencies: Strategic Plan to Nationally Enhance Emergency Management in the Community (2004)*.



IMPROVING THE NATURAL AND BUILT ENVIRONMENT

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 manage risks and enhance the delivery of Direct Action objectives.

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.

The issues of adaptation to the impacts of climate change already built into the system remains a further priority for councils.

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 and a major responsibility for local government is to plan for more sustainable local communities in the long term. To be effective, plans must be current, well informed and capable of implementation. 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 earlier efforts, 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.

ALGA therefore proposes an initiative to ensure local government services and infrastructure meet local community needs.

The 2015-16 Budget should include a commitment to provide:

- *A \$40 million program over four years to support councils to undertake climate vulnerability assessments and develop adaptation plans.*

INDIGENOUS MUNICIPAL SERVICES

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.

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

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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 a review of the new arrangements, once they have been bedded down, to ensure that the intended outcomes have been achieved.

Beyond 2015-16, 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 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 but we believe strongly that there should be initiatives in the 2015-16 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 2015-16 Budget should include a commitment to:

- *Immediately restore the indexation of the Financial Assistance Grants;*
- *Establish a \$100 million Strategic Regional Roads Program to ensure that first mile/last mile and freight connectivity issues are addressed to improve national productivity;*
- *Fund regional and 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;*
- *Fund a targeted disaster mitigation program at a level of \$200 million per annum; and*
- *Provide \$40 million over four years to support councils to undertake climate vulnerability assessments and develop adaptation plans.*



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FEDERAL
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2015-16

Beyond 2015-16, the Federal Government should commit to:

- *A review of the adequacy of the base and indexation methodology of the Financial Assistance Grants;*
- *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;*
- *A doubling of the program for bridge renewal; and*
- *Review of the new arrangements for funding municipal services in indigenous communities to ensure that services are meeting the needs of communities and that there has not been a shifting of responsibilities and costs on to local governments.*

FOR MORE INFORMATION

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