



AUSTRALIAN LOCAL
GOVERNMENT ASSOCIATION



Local Government's Plan for an Innovative and Prosperous Australia

2016



Local Government's Plan for an Innovative and Prosperous Australia

President's Foreword

Maintaining and improving the quality of life of all citizens is a goal of all governments. The maintenance of our quality of life is dependent upon strengthening the economy through improving productivity, increasing workforce participation, ensuring a healthy environment and building greater social equity.

To achieve these goals, governments need to continue to work together to provide the appropriate infrastructure, in particular transport infrastructure, devise ways to incentivise and invest in job creation and boost productivity at all levels of the economy.

Local government has a critical role to play in the Australian economy. It has a presence in every part of the country. It is responsible for around 75 per cent of Australia's road network by length; provides governance and public administration at the local level; and provides services, facilities and programs that meet the needs of local residents and visitors. As such it is uniquely positioned to work with the Commonwealth to enhance productivity, in particular the performance of our national road network; build local community infrastructure that will create jobs and underpin the social and sporting life of Australians; as well as to maintain and improve the provision of basic municipal services in every community.

This document outlines a number of proposals that will optimise this opportunity. In the forthcoming Federal Election local government is seeking commitments to help the sector:

- improve access to municipal services through restoring the indexation of Financial Assistance Grants and implementing a jobs creation community infrastructure program;
- speed up transport reforms and to enable greater and safer freight movements through higher productivity vehicles;
- continue to maintain basic access through improved local roads and infrastructure; and
- play its part in working to close the gap between Indigenous and non- Indigenous communities.

ALGA has commissioned the National Institute of Economic and Industry Research (NIEIR) to model the economic and employment benefits of the proposals included in this document. In total, over three years all measures will add \$7.47 billion to national GDP and will create an estimated 19,300 jobs created by year three. The outcomes make clear that there are strong benefits to the national economy from the initiatives proposed by ALGA.

These proposals have been developed in collaboration with state and territory local government associations and I commend them to Federal political parties for their consideration.



Mayor Troy Pickard
PRESIDENT

Introduction

Local government nationally employs just under 189,000 Australians (around 10 per cent of the total public sector), owns and manages non-financial assets with an estimated written down value of \$354 billion (2013-14), raises around 3.5 per cent of Australia's total taxation revenue per annum and has annual operating expenditure of around \$33 billion (2013-14), just under 6 per cent of total public sector spending.

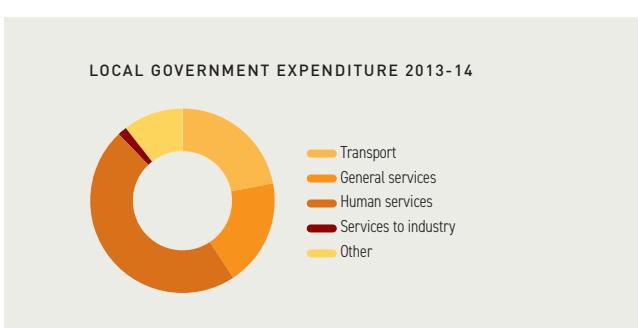
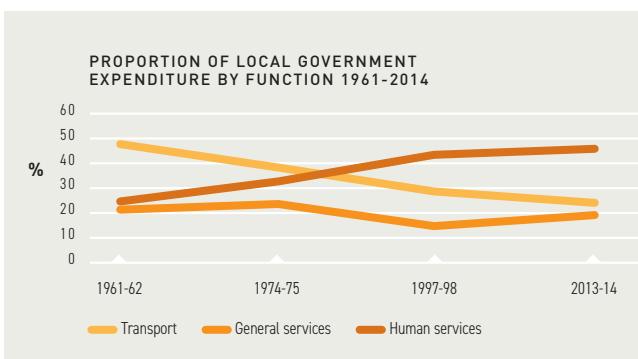
Local government's expenditure is primarily directed towards the provision of local services including housing and community amenities, transport and communications, recreation and culture, and social security and welfare.

Local government plays an important 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 to these challenges, 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.

In addition to the increasing community demand for services, local government must devote a growing level of its resources to maintain its ageing local community assets. Local government balance sheets include more than \$354 billion in non financial assets. In recent years councils across Australia have significantly improved their asset management practices by developing and implementing asset management plans and local government has made very substantial investments in its infrastructure. However, in spite of these efforts, the 2015 State of the Assets report commissioned by ALGA reveals that on average an estimated 11 per cent of local government infrastructure is in poor or very poor condition i.e. physically unsound and/or beyond rehabilitation. There is simply insufficient funding to address the issues surrounding aging infrastructure under increased and changing usage.

The local road system has developed and expanded over recent decades so that it is around 75 per cent by length of all roads in Australia and a significant component of the national transport system. The local road system was not designed to carry our modern transport fleet. Local government faces a huge task in managing our local roads network, which is more than 640,000 kilometres in length and valued at more than \$165 billion. The National Transport Commission has estimated that 36 per cent of all kilometres travelled in Australia are on local roads. The economic importance of local roads is demonstrated by the fact that 30 per cent of medium vehicle kilometres and 16 per cent of heavy vehicle kilometres are driven on local roads.

Local government raises more than 80 per cent of its revenue through user charges and property rates, with the remaining revenue coming from grants from State and Federal Governments. However, it should be noted that 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.



The key priorities for local government in 2016-17

About ALGA

ALGA is the national voice of local government in Australia, representing 562 councils across the country. In structure, ALGA is a federation of state and territory local government associations.

ALGA was established in 1947 and throughout its history has been closely involved in issues of national significance affecting the local government sector as a whole. ALGA has enjoyed a close, productive working relationship with the Federal Government, illustrated by its current membership (through its President) of the Council of Australian Governments, and a number of other Commonwealth-State Ministerial Councils, both formally and informally, which consider a range of complex policy issues across many sectors of the economy.

In addition to its representative role on Commonwealth-State Ministerial forums, ALGA's key functions include participating in policy reviews, providing submissions to, and appearing before, Federal Parliamentary inquiries, and enhancing opportunities for local government to inform the development of national local government policies.

KEY PRIORITIES	SPECIFICS
<i>Restore the indexation of Financial Assistance Grants</i>	<ul style="list-style-type: none"> Financial Assistance Grants to be indexed annually
<i>Increase in the quantum of FAGs to at least 1 per cent of Commonwealth taxation</i>	<ul style="list-style-type: none"> Current base funding of approximately \$2.3 billion to increase to \$3.8 billion to better reflect the actual cost of local government services and infrastructure
<i>A Freight Strategy to increase productivity through targeted investment</i>	<ul style="list-style-type: none"> Local Government - Higher Productivity Investment Plan of \$200 million per year for 5 years.
<i>Permanent doubling of Roads to Recovery (to at least \$700 million per annum)</i>	<ul style="list-style-type: none"> Roads to Recovery funding is \$1 billion in 2015-16 and \$1.155 billion in 2016-17 Funding will revert to previous levels (\$350 million per annum) from 2017-18 onwards
<i>Community Infrastructure funding</i>	<ul style="list-style-type: none"> \$300 million per annum over four years
<i>Support for councils to work with local businesses and communities to implement local and regional Climate Change Plans.</i>	<ul style="list-style-type: none"> \$100 million over four years to support councils to implement local and regional Climate Change Plans and, where appropriate, to support smaller councils to undertake adaptation plans

TOTAL IMPACTS

FURTHER PRIORITIES	SPECIFICS
<i>Review the FAGs indexation methodology</i>	<ul style="list-style-type: none"> Current methodology based on population growth and inflation Methodology should be based on factors that directly relate to local government expenditure
<i>Restoration of fairer roads funding for South Australia</i>	<ul style="list-style-type: none"> Additional Roads funding for South Australia of \$17.5 million, indexed annually in line with FAGs
<i>Review the impacts of the new arrangements for funding municipal services in Indigenous communities.</i>	

COMMUNITY BENEFIT	CUMULATIVE GDP BENEFIT BY YEAR 3	ANNUAL EMPLOYMENT BENEFIT BY YEAR 3
<ul style="list-style-type: none"> Providing councils with financial resources to meet community needs will lead to employment generation and productivity improvements 	• \$1.42 billion	• 4,000 jobs
<ul style="list-style-type: none"> Funding councils to deliver service and infrastructure as part of their role in building communities 	• \$1.39 billion	• 3,900 jobs
<ul style="list-style-type: none"> Addresses first and last mile access issues in the national productivity equation Projects specifically targeting productivity outcomes through improved access and connectivity 	• \$1.07 billion	• 2,400 jobs
<ul style="list-style-type: none"> To address the \$1.2 billion annual funding shortfall to maintain Australia's local roads and to support national productivity improvements 	• \$1.72 billion	• 4,100 jobs
<ul style="list-style-type: none"> Local government owns and manages \$354 billion in non-financial assets 2015 State of the Assets Report estimates more than 11 per cent of roads and community infrastructure are in poor or very poor condition 	• \$1.41 billion	• 3,700 jobs
<ul style="list-style-type: none"> Local government, particularly in cities, can play an important role in helping the Australian Government achieve internationally agreed climate change targets. Implementation of these plans will impact positively on community safety, reduce future economic risks and increase community support for climate change action 	• \$453 million	• 1,200 jobs
	• \$7.463 billion	• 19,300 jobs

COMMUNITY BENEFIT
<ul style="list-style-type: none"> FAGs funding should be at a level which achieves horizontal fiscal equalisation, helping to achieve social equity
<ul style="list-style-type: none"> To address the manifest disadvantage in Federal funding for South Australian local roads
<ul style="list-style-type: none"> Closing the gap between Indigenous and non-Indigenous Australians in the areas of housing, health, early childhood development, education, economic participation and remote service delivery is vital

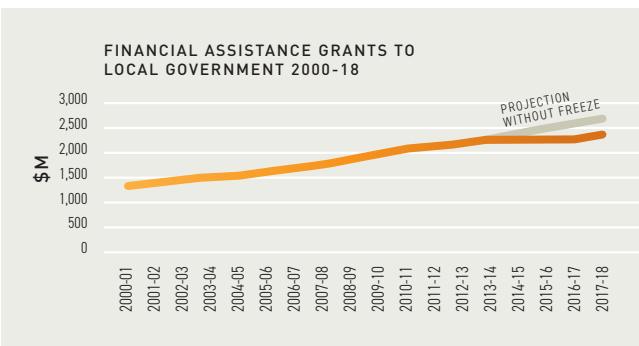
Financial Assistance Grants

- Restore the indexation of Financial Assistance Grants.

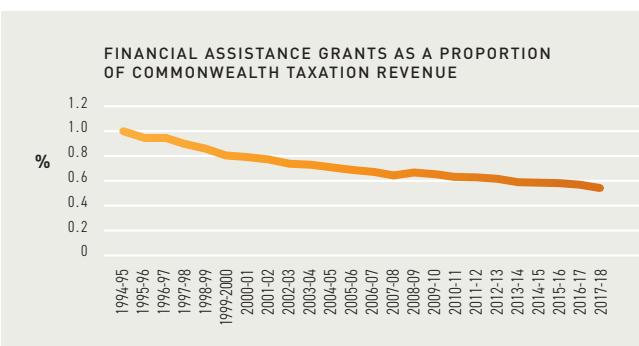
ECONOMIC IMPACT \$1.42 billion in additional GDP - 4,000 new jobs by year three.

- Increase in the quantum of Financial Assistance Grants to return it to at least 1 per cent of Commonwealth tax revenue and a revised indexation methodology which more appropriately reflects council costs.

ECONOMIC IMPACT \$1.39 billion in additional GDP - 3,900 new jobs by year three.



Data taken from Federal Budget Paper 3 (includes forward payments and projected escalations).



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. 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 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. 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. Although horizontal fiscal equalisation is one of seven federally legislated principles for the allocation of FAGs, the Productivity Commission itself has observed that the current level of FAGs is insufficient to achieve equalisation.

RESTORE THE INDEXATION OF FAGS

Local government currently receives general purpose funding from the Australian Government as Financial Assistance Grants (FAGs). The decision in the 2014-15 Federal Budget to freeze the indexation of the FAGs until 2017-18 is having significant long-term impacts on councils, undermining equitable access to facilities and services. Over the three year freeze, almost \$1 billion will have been taken out of communities thereby permanently reducing the grants base by around 13 per cent.

The immediate restoration of indexation of FAGs is ALGA's top priority.

INCREASING THE QUANTUM AND REVISING THE INDEXATION METHODOLOGY

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

Local Government Higher Productivity Investment Plan

- Establish a Local Government - Higher Productivity Investment Plan of \$200 million per year for five years.

ECONOMIC IMPACT \$1.07 billion in additional GDP - 2,400 new jobs by year three.

ALGA strongly supports the Federal Government's focus on improved productivity through investment in infrastructure. The efficient movement of freight is essential in a productive economy and targeted investment and regulatory reform across the different transport modes are important to ensure that our freight moves in a timely way and by the most appropriate mode, whether by ship, rail, pipeline, air or road.

Local roads are a critical part of our transport infrastructure and play a vital role. 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 improves access for freight vehicles and connectivity between local roads and preferred state and national freight routes.

This is a national, state and industry matter and local government needs access to an initial five-year funding grant program to effectively play its role in providing a national transport network fit for purpose capable of supporting growth and national productivity. Local government proposes a Higher Productivity Investment Plan to facilitate increased freight access on local roads by addressing current barriers to effective implementation of the Heavy Vehicle National Law. The Plan would address the following gaps in the existing system and capability:

Systems Gaps. Local government must work with the National Heavy Vehicle Regulator and jurisdictions to enhance the heavy vehicle access permit system, including addressing the following systems gaps:

- all relevant route and vehicle information needs to be provided to local government road managers;
- local government staffing capacity and administrative systems need to be enhanced to process consents;
- adequate information on key road assets needs to be developed to inform council decisions;
- systems developed to share relevant information between neighbouring road managers to avoid discontinuity, and to inform investment decision-making;
- systems developed to reduce the administrative burden, in particular duplication of decision making.

Planning Gaps. Funding for five years to facilitate and support Regional Groups of Councils to liaise with jurisdictions and industry to undertake demand forecasting, some initial route assessment and prioritisation and the development of Regional Freight Plans.

Knowledge Gaps. Funding for five years to undertake assessments of key local road assets including up to 24,000 strategic bridges on designated freight routes.

Funding Gaps. Funding to address pinch points and improve vital infrastructure that limits capacity on designated freight routes.

Roads

- Permanently double the R2R program's funding.
- Implement a permanent Bridge Renewal program.

ECONOMIC IMPACT \$1.72 billion in additional GDP - 4,100 new jobs by year three.

- Restore the Supplementary Roads Funding for South Australia.

PERMANENT DOUBLING OF R2R

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 is estimated to be well in excess of \$4 billion. The Roads to Recovery Program is a true partnership between the Federal and local governments and recent Government announcements of one-off doubling of Roads to Recovery funding and allocating revenue from the fuel excise indexation recognises this.

However, the ALGA study released in 2010 into local road funding found that the funding shortfall to simply maintain, rather than improve, Australia's local roads to 2025 is around \$1.2 billion annually. The continued underinvestment in local roads hinders local and regional social and economic development and ultimately affects the development and productivity of the nation as a whole. Therefore all the major political parties should commit to the permanent doubling of the Roads to Recovery funding.

PERMANENT BRIDGES PROGRAM

The 2015 State of the Assets Report shows councils own \$1.71 billion timber bridges, 4 per cent of which are in poor or very poor condition. ALGA strongly welcomed the much needed bridge renewal program of \$300 million over five years, aimed at helping councils address the very substantial problems affecting local bridges, especially timber bridges. However, given the magnitude of the task facing councils to manage this infrastructure, ALGA believes the Federal Government should look to make this program permanent to allow greater productivity benefits to be realised.

RESTORATION OF FAIRER ROADS FUNDING FOR SOUTH AUSTRALIA

In recognition of the manifestly unfair treatment of South Australia in the provision of local roads funding from the Federal Government, additional roads funding for South Australian councils of \$17.5 million was previously provided to rectify this situation. The strong case and need for this additional funding remain unchanged and ALGA believes that the Federal Government should reinstate a fairer funding level for South Australia, with additional funding indexed annually in line with the indexation of the Financial Assistance Grants.



Community Infrastructure

- Establish a regional and community infrastructure funding program which would invest \$300m per annum over four years.

ECONOMIC IMPACT \$1.41 billion in additional GDP - 3,700 new jobs by year three.

Local government is responsible for community infrastructure with a written down value of \$354 billion and an estimated replacement value of \$438 billion. The 2015 State of the Assets Report concluded that 11 per cent of this infrastructure is in poor or very poor condition despite the sector's intensive focus in recent years on strategic asset management. 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, community health and well-being, social cohesion and tolerance, building social capital and enabling broad-based education and learning.

Local government's community infrastructure includes a large range of arts, cultural, educational, sporting and recreation facilities. There is a need for resources to ensure that local community infrastructure across a range of activities can be brought up to a standard which allows equitable access for all, including people with disability, women and older people (a growing issue as our population ages).

Funding support for community infrastructure will enable all local councils to plan and deliver adequate and appropriate community infrastructure. ALGA is urging political parties to commit to specific local government community infrastructure funding at the level of \$300 million per annum over the next four years.

Climate Change

- Allocate \$100 million over four years 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 those councils that have not yet developed Local Climate Change Mitigation and Adaptation Plans.

ECONOMIC IMPACT \$453 million in additional GDP - 1,200 in new jobs by year three.

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. ALGA strongly supports the Australian Government's commitment, through COP 21, 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 COP 21's acknowledgement of the importance of sub-national governments, including local governments, in addressing and responding to climate change. The role of cities is particularly important.

As one of the most urbanised countries in the world, with over 80 per cent of Australia's population living in cities including large regional centres, the role of our cities and councils within these cities in addressing climate change is hard to overstate.

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

Local government is also seeking a commitment from the Commonwealth to work in partnership on the policy and implementation challenges of reducing emissions associated with street-lighting. In particular, local government needs a commitment from the Australian Government to work together to remove the economic disincentives of converting existing street lighting infrastructure to energy efficient technology. This would include working with the street light infrastructure owners, relevant pricing regulators and, as necessary, the Australian Competition and Consumer Commission.

Indigenous

- **Review the funding for municipal services in Indigenous communities to ensure that services are improving family well being by meeting the needs of communities and that responsibilities and costs have not shifted on to local governments.**

Initiatives aimed at closing 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 are vital if our nation is to overcome the economic and social costs of disadvantage being experienced disproportionately in our Indigenous communities.

Family wellbeing is supported by local government in Indigenous communities and this is a major focus of providing municipal services and infrastructure. Appropriate resources must be provided for these services and infrastructure and it is important that the reforms in this area achieve the best outcomes for communities. Relevantly, the principle that financial assistance allocated to councils should recognise the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries, is also one of the principles for the allocation of general purpose grants.

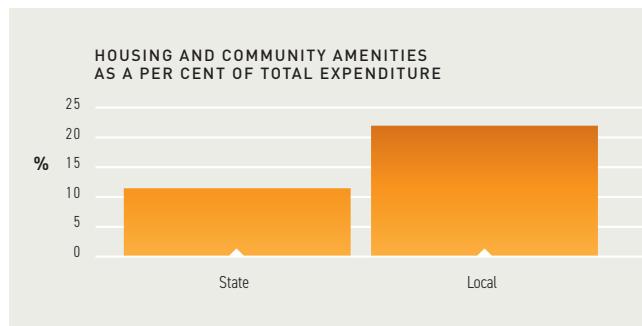
ALGA calls on the Federal Government to commit to a review of the new arrangements for funding municipal services in Indigenous communities to ensure that services are meeting the needs of communities and that there has not been a shifting of responsibilities and costs on to local governments.

It is important that all parties commit to consult and work with elected local government Indigenous councils on policies and programs aimed at meeting the needs of local communities including, where necessary, the removal of barriers on land tenure for councils so they are better placed to provide services and maintain facilities and infrastructure in Indigenous communities. It is important that the Federal Government plays a key role in resolving this issue with the States and Land Councils so that local government is not hindered in performing these roles.

ALGA is also calling for the renewal of the National Partnership Agreement on Remote Indigenous Housing.

Human Services

- Ensuring councils have access to adequate general funding, through untied grants, to meet the human service needs of their local community.



Local governments have a growing role in the delivery of important services with communities increasingly turning to their council for the provision of facilities and services. The areas include, but are not limited to, sport, arts and culture, recreation, childcare, aged care, libraries, drug and alcohol management, housing and homelessness, maternal and child health and a range of community development activities such as community relations, social cohesion, health promotion and citizen engagement.

Communities also require their local governments to address the accessibility and inclusiveness of such services to meet the needs of those with disability. There is also a wide range of contemporary issues in which local government plays a vital role, including the prevention of family violence and refugee settlement. Many councils already have a role in these areas, but could do more in partnership with the Federal Government, if appropriately resourced.

Local government has a unique view of people as citizens of their local community, not merely consumers or clients of a service. Councils' role in the provision and management of social and community infrastructure means that they are best placed to provide opportunities for all residents to actively participate in their community and this helps to build and maintain the connections and networks upon which strong communities are built. Councils require sufficient ongoing long term general funding to enable them to meet the human service needs of their local communities. ALGA is calling on all political parties to commit to ensuring councils have access to adequate untied grants to ensure they can meet community needs.

Natural Disasters

- Maintain the level of support provided under the Natural Disaster Relief and Recovery Arrangements.
- Implement a dedicated program to support natural disaster mitigation.

Local government has been a strong supporter of the Natural Disaster Relief and Recovery Arrangements (NDRRA) under which the costs of restoring government infrastructure are shared across the levels of government, with the Commonwealth committed to meeting up to 75 per cent of those costs. ALGA strongly supports maintaining the current level of support provided under the NDRRA and calls upon all parties to commit to this position.

ALGA believes the capacity of communities to identify, mitigate and respond to natural disasters is critical. In the face of an increase in extreme weather events, rebuilding infrastructure to its original specifications and condition is not sufficient. Betterment funding, or a small additional investment, will save millions of dollars in years to come by ensuring that infrastructure is rebuilt to withstand its new situation. ALGA is calling for political parties to commit to higher and more targeted mitigation funding, with betterment funding as a core element, to assist local government to strengthen the resilience of local communities. Specifically ALGA is calling for a dedicated natural disaster mitigation program funded by the Commonwealth, state and local government on a 2:2:1 basis.



Reform to secure Local Government's Partnership with the Federal Government

- **Legislative or administrative reform to confirm the ability of the Federal Government to directly fund local government.**

ALGA believes there is a compelling need to remove the doubt around the ability of the Federal Government to fund local government directly. Local government plays a critical role in the Australian economy and has a presence in every part of the country. It is uniquely positioned to partner with the Federal Government to meet the needs of Australians and to enhance national productivity and economic growth.

Reform should aim, among other things, to overcome the uncertainty created by High Court decisions in recent years in relation to the capacity of the Federal Government to provide direct funding to local government. Reform could take the form of changes to the Australian Constitution in the long term or any alternative mechanisms which achieve the same objective.



Conclusion

Australians enjoy an enviable quality of life and if we are to maintain and improve that quality of life we need a strong economy drive by improved productivity and labour market participation and by strong, equitable communities.

Our governments need to work together to provide the infrastructure, incentives and social cohesion necessary to boost productivity at all levels of the economy.

ALGA believes that the political parties in the 2016 Federal Election 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 is a natural partner with the Commonwealth to enhance productivity, and particularly the performance of our national road network, to build local community infrastructure that will create jobs and underpin the social and sporting life of Australians, and to maintain and improve the provision of basic municipal services in every community.

In this election ALGA is proposing initiatives to achieve these outcomes and is seeking commitments which will help the sector:

- improve access to municipal services through restoring the indexation of Financial Assistance Grants and implementing a jobs creation community infrastructure program;
- speed up transport reforms and to enable greater and safer freight movements through higher productivity vehicles;
- continue to maintain basic access through improved local roads and infrastructure; and
- play its part in working to close the gap between Indigenous and non-Indigenous communities.

ALGA has commissioned the National Institute of Economic and Industry Research (NIEIR) to model the economic and employment benefits of the proposals included in this document. In total, over three years all measures will add \$7.47 billion to national GDP and create 53,000 jobs, with an estimated 19,300 jobs created in Year three alone. The outcomes make clear that there are strong benefits to the national economy from the initiatives proposed by ALGA.



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