



Delivering Economic Growth and Social Cohesion for Australia

ALGA

AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

07-08

ALGA BUDGET SUBMISSION

2007-08

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*Delivering Economic Growth
and Social Cohesion for Australia*

Hon Peter Costello MP
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer

ALGA Budget Submission 2007-08

Thank you for the opportunity to provide a submission for the 2007-08 Federal Budget.

I commend the Australian Government on the continued strength of Australia's economy. ALGA congratulates the government on its financial management and fiscal discipline that has achieved a surplus of \$15.8b (05-06).

Local government continues to demonstrate its ability to deliver services directly to Australian communities through a range of programs such as Roads to Recovery, aged care, housing, the environment and child care. Local government is an important part of Australian federalism and is committed to continuing to build a strong relationship with the Commonwealth.

This submission outlines 4 strategic priorities that local government believes the 2007-08 Federal Budget should pursue:

- 1 continued commitment to core Australian government services and programs including Auslink, the National Water Initiative, the extension of the Natural Heritage Trust and National Action Plan for Salinity and Water Quality beyond June 2008; and the expansion of drought relief arrangements, as required.
- 2 improved funding for local government including:
 - 2.1 reform the financial assistance grants
 - 2.2 support sector led reform to improve local government financial and asset management skills
 - 2.3 investment in local and strategic infrastructure through local government
- 3 investment that supports export orientated businesses and
- 4 targeted programs to encourage participation in the workforce and skills acquisition.

In addition, local government supports initiatives that support the provision of essential municipal services to Indigenous communities and mechanisms to accelerate the COAG Reforms outlined in the February 2006 COAG Communiqué.

Local government appreciates our growing partnership with the Australian Government and seeks opportunities to collaborate further with you. This Budget submission puts forward important proposals that will improve outcomes at the local level for all Australians.

I am pleased to present you with ALGA's 2007-08 Federal Budget submission.

Yours sincerely

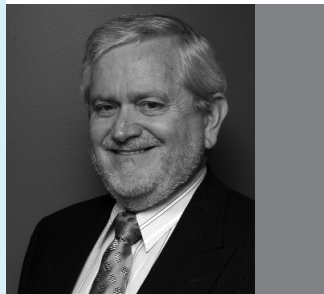


Cr Paul Bell AM

PRESIDENT

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Challenges and opportunities for the Australian economy

The underlying strength of the Australian economy provides significant opportunities to deliver strong national *as well as* local outcomes.

In looking forward to the 2007-08 Federal Budget, local government notes with some concern the following macro economic context:

- continued inflationary pressure resulting in upward pressure on interest rates;
- unprecedented levels of household indebtedness;
- ongoing and substantial balance of payments deficits;
- ageing of the Australian population;
- growing local and strategic infrastructure backlog; and
- impact of the drought.

Having regard to this context, ALGA supports acceleration of the reforms being pursued by COAG and believes that the 2007-08 Federal Budget should focus on 4 strategic priorities. These are:

- 1 continued commitment to core Australian government services and programs including AusLink; the National Water Initiative; the extension of the Natural Heritage Trust and National Action Plan for Salinity and Water Quality beyond June 2008; and the expansion of drought relief arrangements, as required.
- 2 improved funding for local government including:
 - 2.1 support sector led reform to improve local government financial and asset management skills;
 - 2.2 reform the financial assistance grants; and
 - 2.3 investment in local and strategic infrastructure through local government
- 3 targeted investment that supports export-orientated businesses; and
- 4 targeted programs to encourage participation in the workforce and skills acquisition.

In addition, ALGA is gravely concerned with the adequacy of Indigenous housing, particularly in remote and rural areas. ALGA urges the Australian Government to consider the provision of an additional \$100m per year for 4 years for the provision of municipal services to Indigenous communities.

TABLE 1 | Summary of specific initiatives

INITIATIVE	DESCRIPTION	DEPARTMENT	REQUEST
Accelerate COAG Reforms	Local government supports accelerating COAG reforms.	PM&C	\$2b–3b over 5 years
Government services and programs: <ul style="list-style-type: none"> • Natural Heritage Trust • AusLink • National Water Initiative • National Water Fund 	Local government supports extension to the Natural Heritage Trust and National Action Plan for Salinity of around \$5b over seven years. Local government supports continued commitment to AusLink and the National Water Initiative and National Water Fund.	DEW and DFFA	\$5b over 7 years
Coordination of local government early childhood education, care and health programs—specifically review of immunisation services	Local government supports the provision of \$10m per year for 4 years to facilitate the development and implementation of local and regional plans for the development and coordination of local government early childhood education, care and health programs that impact on children aged 0–6 years. ALGA proposes that the Australian Government review recurrent funding levels to local government to maintain subsidies at a level that reflects changes in the cost of delivering immunisation services.	FACSI	\$40m over 4 years
Renew Working Together to Manage Emergency program	Local government supports the extension of funding to the Working Together to Manage Emergency program at \$33.3m per year for 4 years.	AG	\$99.9m over 4 years
Local Government funding	Local government urges consideration of fundamental change to intergovernmental transfers to local government from the current FAGs to a fixed percentage share of Commonwealth taxation revenue. At a minimum, and as an initial step, local government seeks a change to the FAGs escalation factor to a more appropriate figure such as average weekly earnings or an appropriate construction index, plus population growth.	DOTARS	\$400m in the first year
Investment in addressing the backlog in local and strategic infrastructure through local government	Local government strongly supports ongoing commitment to Roads to Recovery.	DOTARS	\$300m per year
Community infrastructure	Local government supports the provision of \$250m for 4 years for the renewal and replacement of ageing community infrastructure such as swimming pools, sports stadiums, library galleries, museums, running tracks, bicycle paths etc.	DOTARS	\$1b over 4 years

TABLE 1 | Summary of specific initiatives *Continued*

INITIATIVE	DESCRIPTION	DEPARTMENT	REQUEST
National roads asset management systems	Local government supports the provision of \$12.87 million over 3 years commencing in 2007-08 to extend and implement roads asset management systems across all councils including \$1.0 million to develop and collect nationally consistent data.	DOTARS	\$12.87m over 3 years
Local water and sewerage schemes Program	Local government supports the provision of \$250m per year for 4 years to assist councils augment council owned and operated water and sewerage schemes, including recycling and water conservation initiatives.		\$1b over 4 years
A timber bridge program and special initiatives to support HML and PBS	Local government supports the provision of \$250m per year for 4 years to renew and replace timber bridges and special initiatives to support HML and PBS.	DOTARS	\$1b over 4 years
Better Rural Services Broadband Initiative	Local government supports the provision of \$275m over 4 years for the implementation of a Better Rural Services Project Broadband Initiative to improve and transform the way rural and remote councils deliver services to their communities.	DCITA	\$275m over 4 years
Investment to lift profitability in particular of export orientated businesses including: the Regulation Reduction Incentive Fund	See also: investment in addressing the backlog in local and strategic infrastructure. Local government supports the extension of funding to the Regulation Reduction Incentive Fund at \$50m per years for 4 years.	DITR	\$200m over 4 years
Targeted programs to encourage participation in the workforce and skills acquisition: Local Government Skills Shortages Program	Local government supports the provision of \$50m over 4 years to address the skills shortages in areas in local government that are particularly important for business development eg planners and environment health officers.	DEST	\$50m over 4 years
Indigenous Housing/municipal services	Local government supports the provision of an addition \$100m per year for 4 years for municipal services in Indigenous communities.	FACSIA	\$400m over 4 years

Detailed proposals

COAG Reforms

Local government supports accelerating the COAG reforms in the important areas of transport including urban congestion, major export related infrastructure, energy and regulation reform as well as in human capital: (including early childhood development, literacy and numeracy and diabetes). Local government also supports acceleration of work in the important area of national water reform.

Local government notes that these reforms complement a number of existing Australian Government programs and initiatives. Local government is committed to play its part in achieving meaningful reform that will enhance participation and the productivity of the nation.

→ **REQUEST** ALGA supports in principle funding up to \$2b-\$3b over 5 years to facilitate COAG Reforms.

1 Continued spending on key government services and programs including support for families

Local government commends the government on the overall budget strategy of the past decade. In particular, local government supports the Commonwealth's continued commitment to major strategic programs such as AusLink, the National Water Initiative and National Water Fund.

1.1 Natural Resource Management

ALGA notes the successes of the Natural Heritage Trust (NHT) and National Action Plan for Salinity and Water Quality (NAP) and fully supports the extension of these programs beyond June 2008. Local government supports the allocation of around \$5b over 7 years into a single more integrated program to maintain the momentum achieved under the NHT and NAP programs. Local government is fully committed to working with the Australian Government to strengthen local government's involvement in regional natural resources management arrangements, and to achieve improved science based NRM outcomes at all scales.

→ **REQUEST** ALGA supports the extension of the National Heritage Trust (NHT) up to \$5b for 7 years.

1.2 Early Childhood Planning

The care, protection and early childhood development of Australia's children is a critical issue being pursued under the COAG human capital reform agenda. Local government is in an excellent position to secure properly planned and integrated early childhood development services at the local level.

→ **REQUEST** ALGA supports the provision of \$10m per year 4 years to facilitate the development and implementation of local and regional plans for the development and coordination of local government early childhood education, care and health programs that impact on children aged 0-6 years.

1.3 Immunisation

Immunisation is a vital public health service that protects the wellbeing of all Australians and provides protection from vaccine preventable diseases. Since the introduction of mass immunisation in the 1930s, Australia has seen a significant reduction in vaccine preventable disease. However, there is no room for complacency. Low rates of some preventable diseases continue and, in light of a possible influenza pandemic, maintaining the health gains of the population achieved through immunisation programs relies on renewed efforts.

Nationally, local government provides 18 per cent of preschool immunisations. Despite rising costs, the increasing complexity of immunisation schedules and the introduction of new vaccines, Australian Government support for immunisation by local government has not increased. The Australian Government should commit to a new national immunisation strategy that would clearly define the roles and responsibilities of stakeholders as well as the goals and targets. A national immunisation strategy would provide substantial benefits, including better use of resources, reduction of waste and duplication and an improvement in the delivery of immunisation services. Local government is willing to play its role in significantly improving the capacity, efficiency and effectiveness of Australia's immunisation system.

→ **REQUEST** ALGA supports the provision of \$10m for 2007-08 to reform current immunisation arrangements including the development of a national immunisation strategy that would provide substantial benefits, including better use of resources, reduction of waste and duplication and an improvement in the delivery of immunisation services.

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1.4 Working Together to Manage Emergencies

Local governments are at the forefront in preparing to manage emergencies. The Local Grants Scheme (LGS) of the Working Together to Manage Emergencies program has been an invaluable source of funding to assist councils, and state local government associations where appropriate, to prepare for emergencies in a variety of different ways, including through outfitting coordination centres, preparing mitigation and evacuation strategies, developing and delivering training, etc.

Local government believes the program should be extended for a further four years at \$33.3m per annum to strengthen the capacity of all local governments, particularly in the face of more severe and frequent natural disasters, which are likely because of climate change.

Local government believes there may also be scope to rationalize the programs which provide emergency and mitigation funding to local councils (including the LGS, Natural Disaster Mitigation Program and the Bushfire Mitigation Program) into a single grant program providing funding direct to local government.

→ **REQUEST** Local government supports the extension of the Working Together to Manage Emergencies program for a further 4 years at \$33.3m per annum to strengthen the capacity of all local governments.

2 Improved funding for local government

2.1 Local Government Funding

Local government seeks fundamental change to intergovernmental transfers to local government from the current Financial Assistance Grants (FAGs) to a fixed percentage share of Commonwealth taxation revenue.

Local government is an integral part of the Australian federation. It is responsible for a wide range of social, environmental, economic and cultural services and infrastructure at the local and regional level.

Over the past 30 years local communities and other spheres of government have demanded more and more from local government. Meeting these demands has resulted in a significant change in responsibilities of local government and placed significant additional financial pressures on the sector.

In the last 18 months, ALGA and several state local government associations have commissioned a number of major studies into local government financing. They note that over the last decade, local government, often led by state local government associations, has participated in significant reforms to improve the efficiency and effectiveness of the sector. These include, but are not limited to: structural reform—including amalgamations; shared services and resources; new corporate practices; corporatisation of council owned enterprises; outsourcing of services, and the adoption of national accounting standards. The studies indicate that further internal reform for some councils is required.

However, each of these studies shows that internal reforms have not and will not be enough by and in themselves to achieve financial sustainability of the sector. They indicate that there is a need in local government for significant additional revenue beyond that which can be generated through their own sources such as rates, and fees and charges. This is particularly important during a time when municipalities are constrained in their taxing powers by the lower financial capacity of many rural areas and drought affected communities to pay for increases in municipal rates and charges to make up for government shortfalls in other areas.

Local government's financial position

Four major reports—the Commonwealth Grants Commission review of the *Local Government (Financial Assistance) Act 1995*, the *Fair Share report* (Hawker), and the *Rising to the Challenge Report* (SA)¹ and *Are Councils Sustainable* (NSW)²—have provided extensive evidence that many local governments, especially those in rural and remote Australia are in significant financial trouble.

The *Rising to the Challenge Report* reached a number of conclusions regarding the financial viability of councils. Independent advice prepared for this review showed that 33 of South Australia's 68 councils, covering about half of the state's population, can be categorised as financially unsustainable or vulnerable. Some 30 per cent of metropolitan councils and 40 per cent of country councils are in these categories. A further ten councils have the minimum margin of comfort. Only 25 councils could be categorised as having a very substantial, substantial or a moderate margin of comfort. These councils account for 35 per cent of the state's population. Similar studies have been completed in New South Wales and Western Australia.

1 A Report produced by the Financial Sustainability Review Board in South Australia (August 2005)

2 Final Report of the NSW Independent Inquiry into the Sustainability of NSW Local Government 2006

Each of these studies shows that the financial pressures faced by councils result from several different factors:

- 1 rapidly rising expectations of constituents;
- 2 unfunded mandates or cost shifting from other spheres of government;
- 3 increased costs of service delivery;
- 4 constraints on local government's ability to raise revenue; and
- 5 variability and inadequacy of grants from other spheres of government.

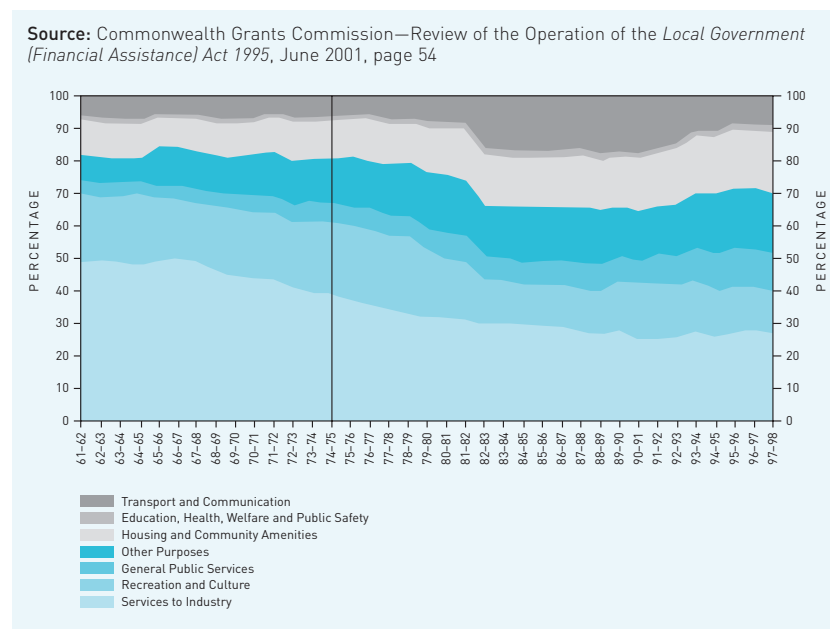
Growth in demand and rising expectations from constituents

Demand for services, including government services, is a direct consequence of the strong performance of the national economy. Demand for local government services has grown consistently over the past 30 years. Growth in demand for local government services has increased more rapidly during the past decade corresponding to the substantial growth in the national economy. To meet this demand local government revenues, including grant funding, must increase in line with the growth in the economy and its major cost drivers.

Over recent decades, the range and scope of local government functions have expanded, moving beyond the traditional local government services, such as roads and waste management, to incorporate a growing range of human services, environmental and other services. This trend is expected to continue given settlement patterns and demographic changes such as the ageing of the population.

Figure 2 shows this significant change in local government expenditure over the past 40 years.

FIGURE 1 | Composition of local government expenditure, 1961–62 to 1997–98



The relative importance of transport related expenditure has significantly decreased, from around 50 per cent of total local government expenditure in the 1960s to little more than 25 per cent in the 1990s. Over the same period, there has been a significant increase in expenditure on recreation, culture, housing, and community amenities as a proportion of total local government outlays. In 1961–62, these categories accounted for 11 per cent of total expenditure, increasing to 36 per cent by 1997–98.

In 2001 the Commonwealth Grants Commission concluded that:

“...the composition of services provided by local government has changed markedly over the last 30–35 years and local government is increasingly providing human services (social welfare type services) at the expense of traditional property based services (particularly roads).”

This observation is consistent with the increasing body of evidence that shows that local governments are being forced to defer maintenance and renewal of assets, in particular local road assets and community infrastructure, to fund operation activities including human services.

Cost shifting and its impact on local government

Federal and state and territory governments increasingly require, often through legislation, local government to undertake a greater role in the areas of development and planning, public health and environmental management; however, this has occurred without the provision of commensurate funding.

The Grants Commission acknowledged that these changes were, to a certain extent, the result of cost shifting on to local councils by other spheres of government.

The Hawker Report also concluded that councils' functions have changed because other spheres of government expect local government to do more without providing any or sufficient funds to undertake them.

In April 2006 the Local Government and Planning Ministers' Council, under the leadership of the Australian Government Minister for Roads and Local Government the Hon. Jim Lloyd MP and the President of the Australian Local Government Association Cr Paul Bell AM, signed an Intergovernmental Agreement to stop cost shifting. The *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations of Local Government Matters* is designed to establish an ongoing framework to address future cost shifting.

However, the cumulative affect of past cost shifting remains a constant demand upon existing council operations.

Constraints on local government's ability to raise revenue

Local government has three major sources of revenue: municipal rates (37.8 per cent of total local government revenue), user charges (30.5 per cent), and grants and subsidies from other spheres of government (up to around 15 per cent). The remaining revenue (16.5 per cent) comes from a number of sources including interest income, dividends, interest on grants and subsidies and fines.

While a relatively small proportion of local government's revenue nationally comes from grants and subsidies, the importance of grants, particularly FAGs should not be underestimated. FAGs, that is, untied grants to councils, account for more than 50 per cent of council revenue in some rural and remote areas where own-source revenue-raising capacity is severely limited.

Both the Hawker and the *Rising to the Challenge* reports found that local government is struggling to meet community demand for more intensive 'human services to the people', as well as maintaining its increasingly ageing

physical asset base of roads and community infrastructure. Consequently, local government faces the choice of reducing services, ignoring its deteriorating physical infrastructure and/or increasing its revenue base.

Over the past 30 years, local government has maintained its revenue-raising effort and has worked hard to expand own-source revenue. During the 1970s, fees and user charges comprised 13 per cent of total revenue. This revenue source now represents 30.5 per cent of the total.

Local government has also continued to increase municipal rates. However, compared with growth in Commonwealth taxation revenue (48 per cent over the period 1998-99 to 2003-04), rates are a slow-growth tax (34 per cent over the same period). In addition, state government restrictions such as rate pegging have limited local government's ability to increase rates.

The ability of local government to increase rates is also adversely affected by state governments' increasing dependence upon property taxes. As the state governments take more from property owners, it becomes more difficult for local government to increase rates in line with demand for local government services. The tax burden placed on property owners by state governments has increased from 30 per cent to 41 per cent of total state taxation revenues over the past six years.

Given that the Australian taxation system is highly centralised (the Australian Government collects over 80 per cent of all taxes), the Australian Government has the capacity and the obligation under our federal system to address the vertical fiscal imbalance (VFI)³. Similarly, under our federal system the Commonwealth has an obligation to achieve horizontal equalisation across states and across local government to ensure that all citizens receive equitable levels of government services. Currently, FAGs are not adequately addressing VFI or horizontal equalisation.

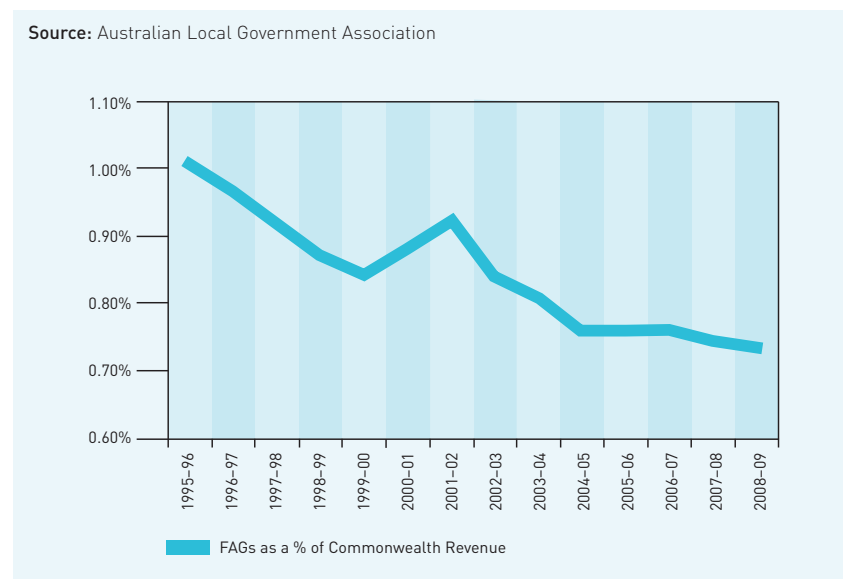
The Australian Government annually adjusts the quantum of FAGs using an escalation factor based on inflation and population growth (although in 1997-98 FAGs were not escalated for population growth). While this delivers a small annual growth in grants to local government, it is insufficient to meet growth in demand for infrastructure and services and the escalating cost of providing them.

Over the past 20 years, the application of this escalation factor has resulted in a decline of FAGs as a percentage of total Commonwealth revenue, as shown in Figure 1.

3 A Report produced by the Financial Sustainability Review Board in South Australia (August 2005)

The 2006–07 Federal Budget papers indicate that this trend is set to continue. The value of FAGs, as a proportion of total Commonwealth revenue, will have fallen from 1.01 per cent in 1995–96 to just 0.74 per cent by 2008–09.

FIGURE 2 | Local government financial assistance grants as a percentage of Commonwealth revenue



Reforming local government financing

Given the demand upon local government and its constraints, adequate revenue growth (for general purposes) can only be achieved through improved intergovernmental financial transfers—a fair share of Commonwealth taxation revenue.

Current FAGs from the Australian government are \$1.63b (05–06), which is equivalent to 0.78 per cent of Commonwealth taxation revenue.⁴ This is comprised of two components: general purpose grants (\$1.13b in 2005–06), and identified roads grants (\$0.5b in 2004–05).

⁴ Local government acknowledges that FAGs combined with the very important and highly successful roads to recovery program (SPP) total Commonwealth transfers is equivalent to 0.9 per cent

ALGA believes that the quantum of Commonwealth transfers should increase from the current level of 0.78 per cent, to at least 1 per cent of total Commonwealth taxation revenue (excluding GST). Adopting such a system would increase payments to local government from \$1.684 billion (est 2006–07) to \$2.068 billion in 2006–07.

More importantly, the system would ensure that councils gain access to a revenue stream that grows in line with the growth of the economy and therefore can keep pace with demand for service delivery and infrastructure provision.

In light of solid growth in Australian Government revenue and substantial budget surpluses, ALGA considers the annual transfer of at least 1 per cent of total Commonwealth taxation revenue to local government to be both justifiable and affordable.

Such reform would better address VFI and more adequately meet the Commonwealth's objectives as set out in the *Financial Assistance Grants Act 1995* by:

- improving the delivery of services to local communities;
- maintaining and improving the quality of social and physical infrastructure across Australia;
- helping to counter growing regional inequality;
- assisting in the repair of environmental degradation across Australia; and
- improving community cohesion.

A prompt move from the current FAGs system to a percentage share of Commonwealth taxation revenue would best serve the needs of local government and the broader community. An alternative, but less effective approach would involve introducing this reform in three stages. These could be:

- 1 amending the FAGs escalation factor from CPI and population to a methodology that better reflects growth in the economy (eg. average weekly earnings or an appropriate construction index, plus population growth);
- 2 changing the appropriation of FAGs to ensure local government receives an amount equivalent to at least 1 per cent of Commonwealth total taxation revenue; and
- 3 moving away from an annual grants program and link financial assistance to a fixed share of total Commonwealth taxation revenue.

→ **REQUEST** Local government supports transition from the current FAGs system to funding based on a fixed percentage share of Commonwealth taxation set to at least 1 per cent of Commonwealth taxation revenue excluding GST. This would be at an estimated cost in the order of \$440m in the first year.

2.2 Investment in Addressing the Backlog in Local and Strategic Infrastructure Through Local Government

2.2.1 Roads to Recovery (R2R)

Roads to Recovery is a highly valued and extremely successful program that is assisting local government to address some of the backlog in the maintenance and renewal of local roads.

→ **REQUEST** Local government fully supports this program and encourages the government to maintain its commitment to this important program into the future.

2.2.2 Local Government Community Infrastructure Renewal Fund

Local government supports the provision of \$250m per annum for 4 years for the renewal and replacement of ageing community infrastructure such as swimming pools, sports stadiums, libraries galleries, museums, running tracks, community centres, bicycle paths, etc.

Local government is responsible for more than \$12 billion of community infrastructure for which there is a growing asset renewals gap. As a consequence of financial sustainability pressures on local government, councils, particularly those in rural and regional areas, are being forced to defer infrastructure investment/renewal in order to meet recurrent costs. Much of local government's infrastructure was built in the 30 years to 1975, often with the assistance of one off capital grants from other spheres of government. But it is now reaching the end of its economic life. While the Australian Government is helping local government to address the roads infrastructure issues through R2R, the issue of community infrastructure is a growing problem.

Community infrastructure provides the social backbone to many communities, particularly in rural and regional Australia. The inability to maintain community halls, swimming pools, ovals, theatres, libraries, footpaths, walking trails and boat ramps, among many other assets, has significant impacts on the cohesiveness and survival of communities as well as major implications for issues such as health and obesity.

Funding should be provided to assist local government bodies to renew or augment existing community infrastructure and assets such as parks, reserves, town centres, libraries, health clinics, community halls, swimming pools, etc. Funding would not be provided for new infrastructure, thus avoiding the accumulation of additional new assets, which would require additional revenues to maintain and renew.

Local government propose that such a program should be similar to the R2R program and not established as a competitive grants program. This ensures that all communities benefit and avoids the situation where councils, often smaller rural councils, do not have the capacity to prepare applications and chase funding. Councils would be required to acknowledge Australian Government funding through signage and would be required to provide annual reports on how the funding has been spent.

Examples of community infrastructure, which could be funded through the programme, include:

- childcare infrastructure
- public halls
- community buildings (including compliance with building codes, including disability discrimination codes)
- theatres
- main street/shopping strip footpaths
- swimming pools
- boat ramps
- recreational facilities and playing fields
- playground equipment
- airports
- senior citizen centres
- public squares and spaces
- libraries
- galleries and museums
- walking trails and board walks; and
- community and tourism information centres

The program would deliver substantial benefits including:

- addressing the growing backlog in existing community infrastructure in order to support communities' activity and life on a local scale;
- communities will gain more value and use from existing infrastructure;
- enabling local governments to lift the state of their entire asset base, to broaden the focus on such renewals;
- builds on the success of R2R; and
- provides a significant boost in the long term sustainability of the local government sector.

→ **REQUEST** Local government supports the provision of \$250m per annum for 4 years for the renewal and replacement of ageing community infrastructure such as swimming pools, sports stadiums, libraries galleries, museums, running tracks, community centres, bicycle paths etc.

2.2.3 National Local Government Roads Asset Management and Data System

Local government manages some \$170b (PwC report) worth of assets of which \$103b is local roads and bridges. With the introduction of accrual accounting and rapidly changing community standards and needs, it is essential that all asset managers implement contemporary management techniques.

Currently it is estimated that only around 25–30 per cent councils have adequate road asset management systems. Local government is responsible for 649,000 kilometres or 80 per cent of roads in Australia. The proper management of road assets of this size and importance is difficult but essential for Australian communities and the local, regional and national economies.

An important by-product of an asset management system is that information about the assets can be aggregated to provide a picture of the extent and condition at regional, state and national levels. This initiative could therefore be of significant benefit to the Australian Government itself.

A recent inquiry by the Commonwealth Grants Commission into the interstate distribution of the identified local roads component of the Financial Assistance Grants, has highlighted the lack of information about the road assets owned and managed by local government. The Australian Government could also use this data to be assured that its investment through Roads to Recovery has been wisely spent.

ALGA is seeking funding totalling \$12.87 million over 3 years commencing in 2007–08 to extend and implement roads asset management systems across all councils including \$1.0 million to develop and collect nationally consistent data. At the end of the 3-year funding programme:

- all councils would have in place high standard roads asset management systems to assist their decision making;
- there would be acceptance by all elected councillors and council staff of the need for, and the benefits of the asset management system; and
- the data from the road asset management systems would be collected into national data collection developed by ALGA.

Under this program, each state and territory local government association would have the responsibility to roll out road asset management in their state. This builds on the progress already made with the roll out of road asset management. A small amount of funds would be made available for ALGA to coordinate and deliver on the national data collection.

This proposal would allow councils to adopt differing management technologies or programs provided the data was compatible with ALGA's national collection. Although the proposed asset management systems would be restricted to roads infrastructure, they could provide the platform for management of all assets in the future.

Proposed funding distribution

STATE/TERRITORY	DISTRIBUTION OF FUNDING \$ MILLION (OVER 3 YEARS)
NSW	2.75
Victoria	1.7
Queensland	2.75
Western Australia	1.97
South Australia	1.7
Tasmania	0.5
Northern Territory	0.5
Australian Capital Territory*	na
National Data collection	1.0
TOTAL	12.87

* Funding for the ACT is not being sought as the local roads are managed in accordance with state/territory level systems.

2.2.4 Local Water Supply and Water Quality

Ensuring a consistent supply of good quality water to the community is critical and has far-reaching economic, environmental and social consequences. Water infrastructure includes supply, storage and treatment facilities. The infrastructure currently available in many communities is inadequate and in urgent need of maintenance and upgrade—a job beyond the scope of councils alone. The urgency is particularly apparent in drought affected rural Australia.

Local government supports the provision of \$250m per year for 4 years to assist councils to augment council owned and operated water and sewerage schemes, including recycling initiatives.

Local government is already undertaking water projects at the local level, however there needs to be more collaboration between all spheres of government to achieve integrated water outcomes.

Specifically, local level projects that will need support are:

- upgrading and expansion of old and/or inadequate water infrastructure, especially where this vital resource is leaking as a result of the deterioration of the infrastructure;
- storm water harvesting plans and implementing programs;
- the development of water sensitive urban design principles—a national approach can reduce water use, with councils encouraging reduced water use through specific initiatives, and
- encouraging the use of recycling technologies.

While some councils have accessed funding under the existing Australian Water Fund, the opportunities are limited under the current arrangements as, in many instances, large state proposals have been given preference for funding.

Given the drought and heightened awareness of the need for better local water infrastructure and conservation of water at the community level, ALGA believes that it is timely to establish a discrete local government water supply and water quality program for local communities. This initiative would enable councils to augment and renew old leaky systems, treat water and take action to stop nutrient contamination of rivers and water supplies.

→ **REQUEST** ALGA supports the provision of \$250m per year for 4 years to assist councils augment council owned and operated water and sewerage schemes, including recycling initiatives.

2.2.5 Timber bridges

Local government welcomes and fully support the governments continued commitment to the Roads to Recovery (R2R) and Blackspots Programs. These essential programs are delivering better and safer roads for local communities and local businesses. While R2R is making a significant contribution to meet the backlog in local roads funding more needs to be done.

Australian transport efficiency will be significantly enhanced with the introduction of higher mass limits (HML) and Performance Based Standards (PBS) 'smart trucks'. These initiatives will have far-reaching impacts on business efficiency and infrastructure providers. Local government, as the major local infrastructure provider, believes that introduction of HML and PBS must be supported at the local level. In particular, local government believes that there is need to invest in so-called 'last mile solutions'.

To assist councils to implement national transport reforms, in particular Higher Mass Limits and Performance Based Standards—'smart trucks', ALGA supports the provision of \$250m per year for 4 years to renew and replace timber bridges and specific initiatives to support HML and PBS.

The fund would be distributed based on need and would complement R2R funding.

→ **REQUEST** ALGA supports the provision of \$250m per year for 4 years to renew and replace timber bridges and specific initiatives to support HML and PBS.

2.2.6 Information and communication technology—Better Rural Services

ALGA welcomed the Connect Australia Package and fully supports the government's Broadband Connect program. While some local governments will be party to bids under the Broadband Connect program, ALGA is concerned that many rural and regional councils and their communities, that would benefit most from access to broadband, may still miss-out.

Local government is critically important in information and communications technology (ICT) including broadband:

- 1 provision of electronic local government services and there-by contributing to the vision of joined-up government services, and
- 2 community access.

In 2005 ALGA (with funding from the Australian Government Information Management Office), investigated the ICT capacity of councils across Australia. The study found that local government in metropolitan areas is doing relatively well in how it uses ICT to improve the services it offers residents. However, rural and remote councils are at a significant disadvantage because they face an ICT capacity divide. This is caused by a lack of resources, lack of specialist staff, and—in some cases—lack of access to affordable or effective broadband solutions.

These councils find it difficult to undertake tasks such as:

- developing online services;
- participating in innovative programs to reduce overlap and duplication in regulation; and
- accessing secure networks that allow them to deliver services for Australian Government agencies or easily use services such as the Centrelink Customer Confirmation service.

In response to these challenges, ALGA developed the Better Rural Services Strategy. The Networking the Nation (NTN) Local Government Fund enabled local government to take the crucial first steps towards delivering services online. Each state and territory local government association undertook a range of innovative programs that enabled all councils to establish a web presence. However, additional funding is required to take the next, more difficult, steps to improve delivery of services by rural and remote councils.

ALGA is proposing a four-year Better Rural Services (BRS) program to improve and transform the way rural and remote councils deliver services to their communities. The BRS program would deliver essential ICT infrastructure for use by all rural and remote councils and would support councils in their use of the new ICT infrastructure. Training and support services would be developed within a national framework to ensure quality, but would be delivered at the regional level. In respect of broadband infrastructure, BRS would complement and fill in the gaps left by market-driven solutions under the Broadband Connect program, providing a 'last mile solution'.

The BRS program aims to give all rural Australians access to local government services both online and at their nearest council shop-front. The BRS program will enable the seamless delivery of high quality, secure government services at any council shop-front in rural Australia.

The funding would be allocated to three main programs:

- 1 Transforming the way rural and remote councils use ICT to provide services through essential IT infrastructure, training and IT support (\$200m)
- 2 Extending existing Australian Government broadband programs to provide the essential communications infrastructure required to enable councils to share common 'back office' systems (\$37m)
- 3 Projects to pilot the delivery of Australian Government services through rural and remote council offices (\$38m)

→ **REQUEST** ALGA supports the provision of \$275m over 4 years for Better Rural Services.

3 *Investment to lift profitability in particular of export-orientated businesses*

3.1 Red Tape reduction

Local government believes that the 2007–08 budget needs to develop targeted programs to enhance the productivity and profitability of Australian businesses, in particular export-oriented businesses.

To this end, local government recognises the importance of the COAG reforms, and encourages their acceleration, in order to contribute to lower business costs and increased efficiencies in transport and export oriented infrastructure. (See also ALGA infrastructure proposals above.)

Local government supports the extension of funding to the Regulation Reduction Incentive Fund (RRIF) at \$50m for 4 years. Local government believes that the RRIF has been an excellent start to the complex task of reducing red tape for small business. Local government is the first port of call for anyone wanting to start up or expand a small business and is willing to work with the Australian Government over the next 4 years to streamline regulatory processes and reduce red tape, particularly for small business. Of particular value, and identified by COAG as a priority area, is the funding of trials of electronic processing for development assessment.

ALGA and state and territory local government associations would like to be involved in the redesign of the existing program to ensure more state-wide and nationally consistency and better outcomes for businesses and all spheres of government.

→ **REQUEST** ALGA supports the extension of funding to the Regulation Reduction Incentive Fund (RRIF) at \$50m for 4 years.

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4 Targeted programs to meet skills shortages

4.1 Participation in the Workforce and Skills Acquisition Critical Skills Shortages

Local government provides a range of important services to business, householders and citizens. The capacity of councils to provide these services are, in large part, directly related to access to appropriately trained staff in a number of service areas.

Local government, as well as other parts of the community, is experiencing critical skills shortages. In local government critical shortages are experienced in planning, environmental health, engineering, finance and—in some council areas—there is a general labour shortage across the board. Shortages have been exacerbated in rural and remote areas and in growth states such as WA and Queensland where local government has not been able to compete successfully for labour against the more financially well off industries and corporate sectors, such as the mining industry.

Critical skills shortages in local government can result in the imposition of costs to business and can diminish community amenity. For example, shortages may result in planning delays and lower quality outcomes, reduced food safety enforcement and education, inefficient management, delayed infrastructure renewal and replacement and general cut back of local services.

Local government recognises that there are no easy fixes. However, local government believes that small initiatives could make a significant difference.

Local government proposes a local government '3 ticket in 3 years program'. The program aims to attract and retain skilled staff to local government by providing training to fill key positions, particularly those that support local economic development. Under the program, councils would be able to reskill existing employees and/or recruit employees to train and fill areas of skill shortages. Older staff thinking of retirement will also be encouraged to remain in council employment thus retaining vital skills or providing them with the opportunity to reskill.

Every participant in the program would be offered the opportunity to gain '3 tickets' (additional qualifications) in 3 years.

For example, many rural councils are experiencing shortages in grader drivers. This scheme would enable a council to train a day labourer, currently working on a shovel, to develop new skills leading to becoming a grader driver. The programme could be used to train a generalist office worker to undertake basic processing of development applications. In this way, the program would provide a pathway towards the officer becoming a planner. The program could help to lift the skills of the finance manager, or a base level engineer to take on greater management responsibilities such as financial planning and asset management. The program could also allow individuals to move across careers into areas of greatest need.

The program should be designed to deepen and strengthen the local government workforce recognising that this will:

- Improved council service delivery;
- Reduced business costs; and
- Provide depth of skills in the community.

Local government is a major employer particularly in rural areas. This programme will assist in overcoming current skills shortages, benefit local businesses and assist individual employees.

→ **REQUEST** Local government supports the provision of \$50m over 4 years to address the skills shortages in areas in local government that are particularly important for business development eg planners and environment health officers.

- 5 *ALGA is gravely concerned with the adequacy of Indigenous housing, particularly in remote and rural Australia. ALGA urges the Australian Government to consider the provision of an additional \$100m per year for 4 years for the provision of municipal services to Indigenous communities*

Indigenous services and housing

In 2001, the Housing Ministers' Conference adopted a statement of new directions for Indigenous housing, *Building a Better Future: Indigenous Housing to 2010*. This, among other things, recognises the clear relationship between housing, living standards and the health and well-being of Indigenous people.

While Indigenous housing, health and education are the responsibility of the Australian and state/territory governments, local government acknowledges its role, particularly in the Northern Territory where community councils provide and run Indigenous-housing programs.

In this regard, ALGA commends the Australian Government's existing contribution to Indigenous housing, especially the additional funding provided to the *Healthy Indigenous Housing* program in recent years. However, we call upon the Australian Government to provide further funding in the 2007–08 Budget.

Australian Government data supports the need for more Indigenous housing. This includes the provision of over 11,000 bedrooms in the Northern Territory alone.

In many remote and rural Indigenous communities, housing and related infrastructure—including local government infrastructure—remains grossly inadequate. The Grants Commission Report on Indigenous Funding concluded that the backlog for Indigenous housing was close to \$4 billion. Solutions to Indigenous housing will involve a range of agencies. Additional measures are required to ensure that all relevant government agencies work more closely together to bring their combined resources and expertise to address this backlog.

There is an acute need for additional housing. However, there is also an acute need for services and infrastructure that support new housing. This includes roads, sewerage and stormwater drains, waste management and other property-related services.

Local government seeks an additional \$400 million over the next four years to assist local government authorities provide infrastructure and services associated with new housing.

With the abolition of the Aboriginal and Torres Strait Islander Commission (ATSIC), it is timely that the Australian Government reviews all national strategies for the delivery of improved Indigenous housing and associated infrastructures. ALGA seeks a direct strategic partnership with Australian Government and relevant state and territory agencies to ensure satisfactory housing outcomes.

→ **REQUEST** Local government supports \$400m over 4 years for municipal services to Indigenous communities.

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Facts and figures on local government

- Comprises 673 councils across the country
- Councillors number 6,566 (27.8 per cent are women) who each represent around 3,000 people
- Represents over 20 million Australians across a diverse range of metropolitan, regional, rural and indigenous communities
- Spends around \$18b each year (around 2 per cent of the GDP) on an increasingly broad range of infrastructure, economic and community services
- Employs around 165,000 Australians
- Population ranges from zero 143 for the Sandstone Shire Council in WA to the Brisbane City Council with 938,384 residents
- Average council population is 27,800—however 50 per cent of local governing bodies have less than 7120 residents
- Maintains assets worth more than \$170 billion. Roads, bridges and related assets are the largest single component, worth around \$103 billion
- Is responsible for around 645,200 km—or nearly 80 per cent—of all Australian roads
- Raises 85 per cent of its revenue from its own sources (37 per cent from rates and 32 per cent from the sale of goods and services)
- PMs who have served in local Government include John Gorton, Ben Chifley and Arthur Fadden

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