

**AUSTRALIAN LOCAL GOVERNMENT  
ASSOCIATION**



*A Partnership for Australia*

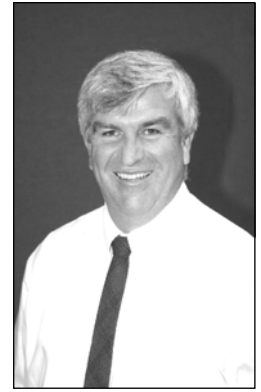
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**Federal Budget Submission  
2004-05**

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*22 October 2003*

Hon Peter Costello MP  
Treasurer  
Parliament House  
CANBERRA ACT 2600



Dear Treasurer

**ALGA Federal Budget Submission**

Thank you for the opportunity to provide a submission on the 2004-05 Federal Budget. Since 1996, the Howard Government has demonstrated a willingness to support local government as an essential partner within Australia's federal system of government.

Australian local government is committed to a co-operative relationship based on mutual respect and recognition of the contribution made to the national good by both spheres of government.

The principle aim of this submission is to focus on the need to improve the financial relations between the Australian Government and local government.

We can do this by working together, in a genuine partnership. By working together, as we do with programs such as *Roads to Recovery*, we can improve the lives of all Australians in all communities. Specifically, we seek to work with the Australian Government to:

- develop a new and equitable financial base to resource local government in Australia;
- build further partnerships to better deliver services to all Australian communities;
- renew the critical *Roads to Recovery* program beyond 2005 and strengthen Commonwealth funding for local government roads;
- deliver effective and improved environmental outcomes;
- fund, through local government, community-focussed structural adjustment packages for communities adversely affected by the introduction of a national water market; and
- boost regional development and build sustainable regional communities.

I am pleased to present you with ALGA's 2004-05 Federal Budget submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Montgomery', written in a cursive style.

Cr Mike Montgomery  
President  
Australian Local Government Association

22 October 2003

## Executive Summary

The ALGA Federal Budget submission calls for the Australian Government and local government to work more closely. In particular, ALGA asks the Australian Government for:

1. Action to address the unfair taxation sharing arrangements between the Australian Government and local government by linking Australian Government financial transfers to local government to a fixed share of Commonwealth taxation revenue, by:
  - a. In the first instance, increasing the quantum of Financial Assistance Grants – (General Purpose Grants) to an equivalent of five per cent of GST revenue. It is estimated that this would require a modest additional \$109m in 2004-05; and
  - b. Working with ALGA to:
    - i. establish an agreed intergovernmental framework to set the quantum of Australian Government financial transfers to local government as a fixed share of total Commonwealth taxation revenue; and
    - ii. respond to the recommendations of the House of Representatives Economics, Finance and Public Administration Committee’s Inquiry into Cost Shifting.
2. A commitment to build and fund additional partnerships with local government to better deliver services to all Australian communities.
3. A commitment to continue the highly successful *Roads to Recovery* program at the current indexed level (\$311m per annum) beyond its expiration on 30 June 2005.
4. Funding to enhance local government’s capacity to improve local and sub-regional environmental and biodiversity outcomes by integrated local area planning, in collaboration with regional bodies established under the *National Action Plan for Salinity and Water Quality*, and the *Natural Heritage Trust Extension*.
5. Funding, through local government, of community-focused structural adjustment packages to help communities to adjust to the adverse impacts of a national water market under the National Water Initiative.
6. Providing additional measures to support regional economic, social and cultural development.

## The Role of ALGA

The Australian Local Government Association was established in 1947 to represent the interests of local government nationally. ALGA is constituted as a federation of the peak Local Government Associations in the six States and the Northern Territory, together with the Government of the ACT. Local government has existed since the 1840s and is a fundamental part of Australia’s democratic system of government. Strong local government is a manifestation of the nation’s commitment to the principles of ‘good governance’ based upon the overarching principles of local democracy, peace, security, social and economic justice, and ecologically sustainable development.

The activities of local government are based on general competency powers conferred under state and territory local government legislation, and thus policies, priorities and programs are determined by local governing bodies on behalf of local communities. While local government services are vital in their own right, local government is also a crucial partner in the efficient and effective planning, funding and delivery of Australian, state and territory government programs. Australia currently has 717 local governing bodies. It employs around 145,000 people and spends some \$17 billion annually.

## Local Government: A Critical Part of the Federation

Local government plays an active and vital role in Australia's federation. However, Australia's federal system is currently retarded by:

- limited recognition of local government as an integral part of the federation;
- unclear delineation of the roles and responsibilities of the spheres of government;
- limited effective mechanisms for co-operation and consultation between the spheres of government; and.
- vertical fiscal imbalance and inequitable financial arrangements between the spheres of government, particularly between the Commonwealth and local government.

In the interests of good governance, these are all inefficiencies and barriers that must be addressed. Over the past decade, the Australian Government has actively pursued a range of important national level reforms. And reform has been a hallmark of the Howard government. These reforms have strengthened the Australian economy, now widely recognised as one of the most robust in the OECD.

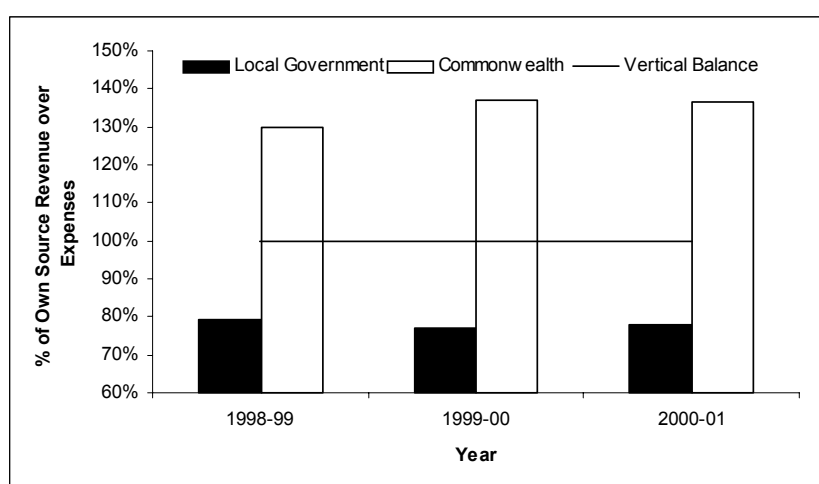
As a nation, all levels of government must be committed to critical examination of the way our federation functions, and to address the issues that can improve the system of government.

Since the election of the first Howard Government, the Commonwealth and local government have developed a positive and productive partnership. This submission seeks to strengthen and deepen this relationship. In particular, it seeks an examination of Australian Government and local government financial relations and a commitment to address the fundamental short-comings of the current arrangements.

### Sharing Australia's Taxes

Financial relations between the Australian Government and local government are characterised by a significant imbalance in the revenue-raising capacity and expenditure responsibilities of the two spheres of government. Local government is being seriously short-changed, hampering its ability to meet the increasing demands placed upon it.

**Figure 1: Australian & Local Government Revenue Raising and Expenditure**



The amount of revenue raised by the Australian Government is considerably greater than its own-purpose expenses. In contrast, local government's revenue base is not sufficient to fund its expenses. This mismatch of spending and taxing powers is known as a vertical fiscal imbalance (VFI) and is illustrated in Figure 1.

This figure also shows revenue raised by the Australian Government and local government as a proportion of expenses incurred by each sphere of government. The straight line in the figure indicates where both spheres would be if there were no instance of VFI.

The efficient and effective operation of each sphere of government is reliant on access to a stable base of taxation exhibiting real levels of growth. Now, since the implementation of taxation reforms, the Australian Government and state/territory governments (through access to the GST) have a tax base exhibiting these attributes, being directly related to the growth in the Australian economy as a whole.

Figure 2 shows the share of taxation as a proportion of Gross Domestic Product (GDP) over the period 1901-2000. The figure shows the relative security of the Australian Government and state/territory governments to a share of taxation as a proportion of GDP, and the worsening fiscal situation for local government over time. In other words, the capacity of the Australian Government and the state/territories to provide government services grows in line with the growth of the Australian economy. This is not the case with local government.

**Figure 2: Share of Taxation as a Proportion of GDP: 1901-02 to 1999-00**

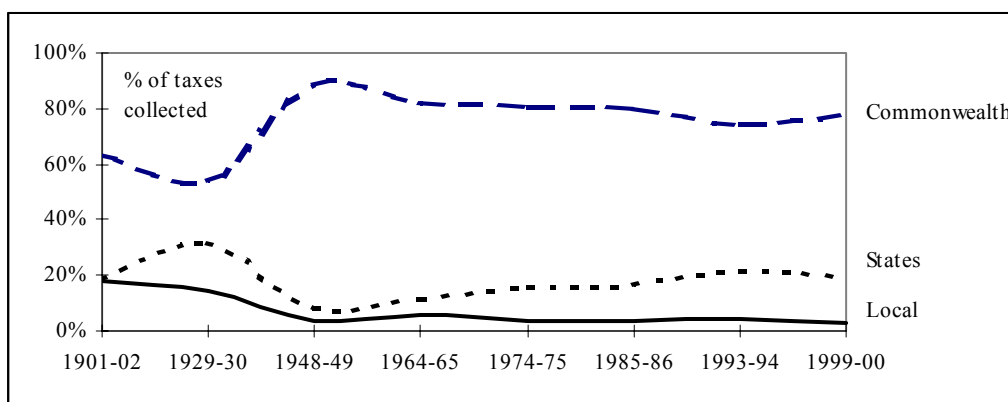
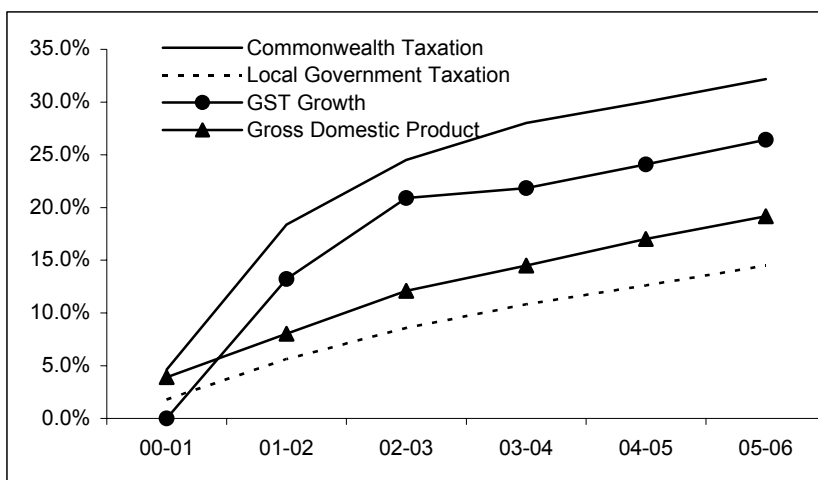


Figure 3 shows that taxes collected by the Australian Government and states/territories are expected to grow at a far greater rate than GDP. It illustrates that local government's tax base (property rates) does not exhibit the rate of growth enjoyed by the other spheres of government. This situation leads to a worsening of the VFI between the Australian Government and local government.

**Figure 3: Estimated Real Growth in Taxation and GDP 1999-00 to 2005-06**



Since 1974-75, the Australian Government has distributed taxation revenue to local government in the form of Financial Assistance Grants (FAGs).

The primary objectives of FAGs are to address VFI, strengthen local government to enable it to provide a wider range of services while promoting both financial equity between councils and certainty of funding.

FAGs are a vital component of local government revenue, underpinning the financial capacity of this sphere of government. While the importance of FAGs to local government cannot be underestimated, local government believes that it is now time to significantly improve the financial relationship between the Australian Government and local government.

FAGs should be recognised as an appropriate taxation revenue transfer from the Commonwealth to local government. That is, the share of taxpayer funds provided to local government in recognition of the impact of Vertical Fiscal Imbalance (VFI) and the need to achieve Horizontal Fiscal Equalisation.

Local government calls for a fair share of total Commonwealth taxation<sup>1</sup> to be provided to councils. This should be achieved by:

1. as an interim measure, creating a direct link between FAGs and Commonwealth taxation by linking the total amount of FAGs paid to local government to an equivalent of five per cent of GST revenue. It is estimated that this would require a modest additional \$109m in 2004-05 and \$144m in 2005-06.
2. as a permanent measure, setting the quantum of the 'fair share' at two per cent of total Commonwealth taxation receipts<sup>2</sup>, which would restore relativities back to 1980-81 levels. ALGA recognises the complexity of this proposal, particularly in light of the Australian Government's current commitments over the period for the phase-in of the GST arrangements. Accordingly, ALGA calls on the Australian Government to make a commitment to work in partnership with ALGA to fully investigate and implement this new initiative. ALGA considers the current methodology inadequate, unfair and discriminatory;

Setting the level of FAGs to an appropriate percentage of total Commonwealth taxation revenue (including GST) will stabilise the VFI gap and offset the need for a cut in services, and/or the introduction additional (inefficient) taxes/charges at a local level.

Reform will help local government to:

- improve its capacity to provide standard levels of service to communities across Australia;
- improve the delivery of services to local communities;
- maintain and improve the quality of social and physical infrastructure across Australia;
- help counter growing regional inequality;
- assist in the repair of environmental degradation across Australia; and
- improve community cohesion.

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<sup>1</sup> The rationale for this entitlement claim is that administration of local government's general competency powers should be underpinned by an appropriate (ie. 'fair') share of Commonwealth taxation revenue.

<sup>2</sup> This percentage would restore Commonwealth funding of local government to a level proportionally equivalent to that established by the Fraser Government in the early 1980s. Under the provisions of the *Local Government (Personal Income Tax Sharing) Act 1976*, local government received in 1976-77 the equivalent of 1.52 per cent of net personal income tax collections in the previous year. In November 1977, the Prime Minister, the Hon Malcolm Fraser MP, announced the Government's intention to increase this proportion to two percent over the following three years. In the event, the proportion was increased to 1.75 per cent in 1979-80 and to two per cent in 1980-81.

## Let's Work Together: The Importance of Partnerships

Since the election of the first Howard Government, the Australian Government and local government have developed a positive and productive partnership. In particular, local government has often been a crucial partner in the efficient and effective planning, funding and delivery of government programs.

One of the most successful and effective examples of this partnership between the Australian Government and local government has been the \$1.2 billion *Roads to Recovery* program. This program has been independently reviewed and is now widely acclaimed as one of the most successful at delivering improved local road network outcomes.

Why is this partnership so successful? Because the partnership is delivering on national objectives directly through local government.

Further important opportunities exist by building upon existing arrangements and establishing new ones. In particular, a more direct partnership can achieve significant improvements in the delivery of services for the Australian people in a broad range of areas including:

- Natural Resource Management (NRM) through local and regional delivery of the Natural Heritage Trust and National Action Plan for Salinity and Water Quality
- National Water Initiative
- Reduction of greenhouse gases
- Delivery of regional economic development outcomes
- Delivery of online services to local communities
- Security and social cohesion
- Development and enforcement of national food standards
- Implementation of public and environmental health strategies
- Delivery of children's services and aged care services
- Delivery of community cultural development program and the arts

ALGA seeks to strengthen and deepen the partnership between the Australian Government and local government for the delivery of national policy and program outcomes.

Throughout the Cost Shifting Inquiry, ALGA has argued the need to fix the fundamentals of the Australian Government and local government financial arrangements. In addition, we have argued that specific services, provided by local government on behalf of other spheres of government should be the subject of direct negotiation within SPP Agreement.

We urge the Australian Government to recognise local government as an important partner that can deliver for the Australian people.

## Action on Cost Shifting

ALGA congratulates the Standing Committee on Economics, Finance and Public Administration for its efforts in the inquiry into *Local Government and Cost Shifting*. It is in the interest of all Australians that the three spheres of government ensure public sector revenues are spent efficiently and effectively to achieve the desired outcomes.

Evidence presented to the Inquiry demonstrates that it is clear that cost shifting is occurring from both states and the NT Government to local government; and from the Australian Government to local government.

Ensuring public sector revenues are efficiently and effectively used will require significant reform of intergovernmental financial relations and definition of service provision.

ALGA supplementary submission to this Inquiry called for a five-point plan to address cost shifting. It argued, in summary, that the Australian Government should:

1. acknowledge cost shifting occurs and is a substantial problem;
2. independently identify/quantify the extent of cost shifting<sup>3</sup>;
3. take measures to ensure public sector revenue is fairly shared across all three spheres of government;
4. develop inter-governmental agreements (IGA) on specific service provision; and
5. enforce the terms of the IGA through appropriate compliance provisions.

ALGA awaits the final report and seeks the opportunity to work with the Australian Government to respond to the recommendations of this report.

It should be noted that fixing cost shifting will not in itself reform the fundamental inadequacy of local government financing.

ALGA anticipates the outcomes of such a report should be used as a basis for further reforms to the system of inter-governmental financial relationships including the ongoing transfer of a fixed share of Australian Government taxation to local government, and the development of formal fiscal arrangements in inter-governmental agreements for local government involvement in services provided under Specific Purpose Payments (SPPs).

## **Funding Australia's Roads – Renew Roads to Recovery!**

Local government is responsible for around 85 per cent of Australia's roads (by length) and provides and maintains road and related infrastructure worth more than \$106 billion (2000-01).

Local government acknowledges the Commonwealth's partnership with local government to help address the substantial backlog in local road maintenance through the critically important *Roads to Recovery* program. Unless renewed, this important program will conclude in June 2005 with much of the job still undone. In 2002, the Australian Government advised that it would consider renewal of R2R following a program review. The review, completed in May 2003, found that the program had gone a "good way" towards addressing the local road deterioration problem, but many deficiencies remained both in terms of the maintenance of the existing road system and the need to upgrade and extend it. Specifically, the review found that:

*To maintain the [local road] asset at its current level of service, the R2R funding would need to be not only continued but at twice its current level. (R2R Review page 42)*

It also found that:

*Local roads will revert to their pre-R2R rate of decline at the end of the program in 2005 if the program is not continued. (R2R Review page 42)*

ALGA calls for a commitment from the Australian Government to renew this highly successful program at the current indexed level.

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<sup>3</sup> While it is important to get a firm grasp of the quantum of cost shifting to local government, this is not the main issue. Cost shifting is a serious inefficiency in our system of government. Once it is acknowledged, then mechanisms, such as those proposed by ALGA must be implemented.

The AusLink Green Paper (the Commonwealth's proposal for an integrated land transport policy) notes that in 1997–98, local government's investment in the local road network was \$2 billion.

The Green Paper also identifies the nature and significance of future pressure on the national land transport network. It notes that by 2020:

- The total freight task is expected to almost double; and
- The urban passenger task will also rise substantially, from 181 billion passenger kilometres today to 236 billion pkm. The non-urban passenger task will rise from 129 billion pkm to 227 billion pkm.

Accordingly, growth and change in the transport task will place significantly increasing demands on the current transport network and by inference all infrastructure providers.

Local government acknowledges and greatly values the Commonwealth's essential support to local government for the provision and maintenance of local roads. Over the period 2000–05, annual average Commonwealth assistance to local government for local roads through *Identified Local Roads Grants* (\$423m) and the *Roads to Recovery* program (\$232m) is estimated to be equivalent to 12.8% of total local government roads expenditure.

Despite the increase in road funding via *Roads to Recovery*, Commonwealth funding for roads is expected to fall in real terms into the future, as shown below in Figure 4.

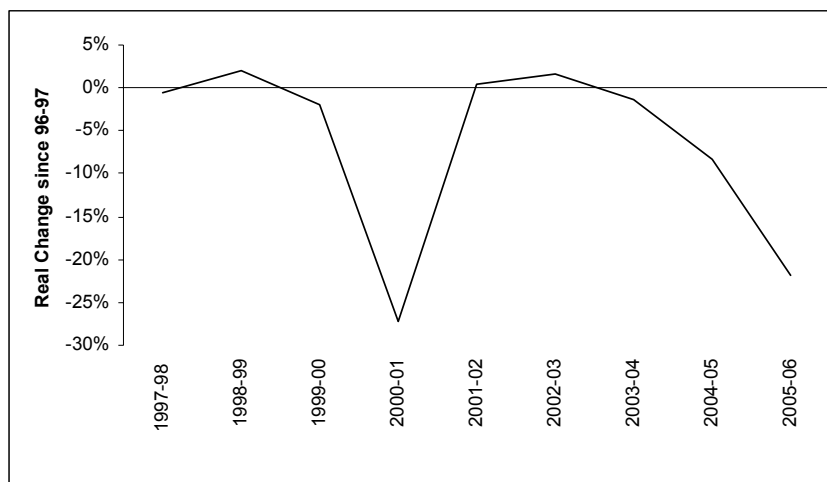
In this context, ALGA strongly supports the need to develop a new framework through AusLink to address the current and emerging land transport challenges.

However, local government's support for AusLink is conditional upon a guarantee of:

- specific and identified processes to include local government in the AusLink planning and decision-making, and
- secure long term funding for local roads to meet existing and future transport demands.

ALGA welcomes the commitment to the retention of identified local roads funding. However, local government seeks the additional assurance that the *Roads to Recovery* program is not at risk and will continue beyond 2004-05.

**Figure 4: Real Change since 1996-97 in Commonwealth Road Funding**



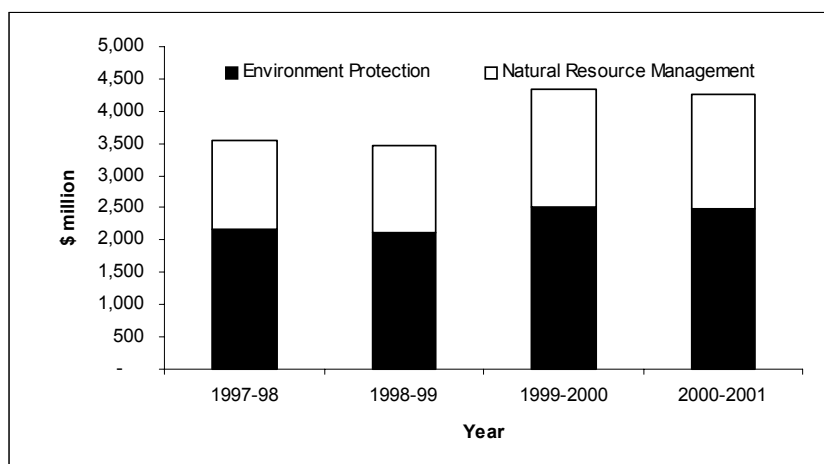
Commonwealth support to local government must be continued beyond June 2005 at a level that is at least equivalent to the current (fully indexed) Identified Roads Component of the Financial Assistance Grants and the average annual funding of the *Roads to Recovery* program (2001-05).

It is also important that any appropriate findings of the House of Representatives Standing Committee *Inquiry into Local Government and Cost Shifting* be carefully considered in the development of the AusLink White Paper.

## Environment: A Stronger Role for Local Government

In 2000-01, Australian local government spent a total of \$2.5 billion on environmental protection and a further \$1.8 billion on natural resource management. This equates to 27% of total expenditure by local government, 86% of which is entirely derived from own-source revenue.

**Figure 5: Local Government Environment Expenditure**



In 2000, the Commonwealth, state and territory governments announced that a total of \$2.4 billion would be spent over a period of five to seven years to address environmental degradation. The *National Action Plan for Salinity and Water Quality* (NAP) commenced in 2000-01 and is scheduled to expire in 2006-07.

The extension of the *Natural Heritage Trust* (NHT) commenced in 2001-02 and is scheduled to expire in 2005-06. Local government welcomes these significant investments in the natural environment.

This submission calls upon the Australian Government to realise the full potential of further direct collaboration with local government on NRM. Actions that will complement the already substantial investment local government makes in protecting and managing the natural environment include:

- Direct assistance for local government to establish a framework to review their planning schemes to complement regional plans (\$2m annually);
- Direct assistance to local government to further develop knowledge management systems to facilitate integrated planning based upon scientific advice (\$2m annually)
- Direct assistance to local government to specifically investigate the science behind salinity impacts upon local government infrastructure and the development of appropriate technologies to remedy these problems (\$2m annually).

The *National Dryland Salinity Program* has reported that salinity is creating significant problems for local government in many parts of Australia. Some 400 local government authorities are now believed to be affected by salinity in some way and the total cost to local government is estimated to be 'hundreds of millions of dollars' annually.

It has been estimated that direct infrastructure costs to local government (increased construction costs for roads, shortened life-span for infrastructure together with increased repair and maintenance costs) in the Murray Darling basin alone has cost \$31.3m pa as a result of salinity. Furthermore, the *Land and Water Resources Audit* estimates by 2020, 26,600km of roads will be at risk, or affected by salinity and by 2050, the figure will be around 67,400km.

This research clearly demonstrates that infrastructure costs for local government will continue to escalate – an increase that is being seen in both rural and urban areas of Australia. Local government is in an excellent position to more closely engage in purposeful partnerships with the Australian Government and the state/territory governments for the implementation of the natural resource management objectives as it has a range of powers, functions, capabilities and responsibilities to influence sustainable and long-term changes. ALGA calls on the Australian Government to accelerate the delivery of NAP by better engaging local government and to take infrastructure issues into consideration as a critical component of sustainable regional development and community prosperity.

On this basis, local government must have a clearly defined role in regional decision making through regional bodies selected to deliver on NAP and NHT. The Australian Government and state governments must recognise local government's responsibilities for strategic planning; development control; enforcement powers; pest, plant and animal risk control measures; management of local open space and advocacy/coordination of local community groups and interest groups.

## **Water: Community Focused Structural Adjustment Packages**

At its August 2003 meeting, the Council of Australian Governments (CoAG) agreed on the implementation of a National Water Initiative. The initiative recognises the need for action on:

- a clear and agreed process for returning over-allocated surface and groundwater systems to environmentally-sustainable levels of extraction;
- developing nationally-compatible water access entitlements, defined as open-ended, or perpetual, access to a share of the water resource available for consumption, involving clear identification and assignment of risks from possible future reductions in water availability;
- further water market development, including removal of impediments to out-of-district trade, greater compatibility of administrative and institutional structures across borders, and best-practice approaches to full-cost recovery pricing;
- more dynamic and efficient management of environmental flows on a whole-of-basin, catchment or aquifer basis, including through access to the water market and targeted public/private investment in infrastructure improvements; and
- encouraging further water conservation in urban areas.

ALGA strongly supports CoAG's recognition of the need to fund these initiatives and the Heads of Governments' acknowledgement that the initial \$500m is the start of a long term investment. ALGA appreciates CoAG's recognition of the particular concerns of local government in relation to:

- the potential impact on local government rates, and
- the potential social and economic impact upon local communities.

ALGA recognises that the water reforms will result in considerable national, regional and, in many cases, local benefits. However, it is also recognised that there will be a number of communities that will be significantly adversely affected by these reforms. In particular, areas where high volumes of water are traded out of the immediate locality, resulting in significant changes to local enterprises. While it might be expected that individual farmers involved in this process may benefit from the sale/lease/trade of water entitlements, local government is concerned about the structural adjustment of the whole community.

For example, infrastructure investments made based upon existing economic activity may become stranded as well as other broader social impacts on small businesses, youth, job prospects and the future of small towns. To the extent that communities will be affected, consideration must be given to the development of community adjustment packages.

ALGA supports a model similar to the initiative in the NSW Namoi Valley where up to \$20 million over 10 years will be provided for community adjustment through proposals which promote future growth of the region, diversify industry and generate long-term employment.

The geographical scope of the package is the Namoi groundwater zones, which include the local government areas of Quirindi, Gunnedah, Narrabri and Walgett.

A local Namoi Valley Advisory Committee has been established as a sub-committee of the New England North West Area Consultative Committee to provide the relevant Commonwealth minister with guidance on the direction of the package and recommend projects for funding.

Committee membership includes representatives from the New England North West Area Consultative Committee, business interests in the region, the shire councils of Narrabri, Quirindi, Gunnedah and Walgett, irrigators and the NSW Department of Infrastructure, Planning and Natural Resources.

Community-focused structural adjustment has the potential to ensure effective intervention by empowering and resourcing communities to develop local responses and solutions to changing economic and social circumstances. ALGA seeks \$50m per annum for Community Focused Structural Adjustment Programs in addition to the National Water Initiative.

## **Boost Regional Development**

ALGA acknowledges the Australian Government's work in regional development and its effort to assist regions develop and seek funding for their own development proposals.

The new Regional Partnerships program, for example, seeks to make it simpler for communities to obtain Australian Government backing for their regional development ideas, integrating the Government's key regional funding programmes, except Sustainable Regions, into one program.

ALGA argues, however, that more still needs to be done to address growing regional inequalities as identified in the ALGA/National Economics annual *State of the Regions Report*.

In particular, ALGA seeks to work with the Australian Government to identify further opportunities to address regional inequality and boost regional economic, social and cultural development.

ALGA believes that additional investment in many of Australia's regions, be they metropolitan, rural or remote, is more than warranted if Australia is to meaningfully address growing regional disparity. Europe in particular has invested in regional development and a strong regional emphasis is also in evidence in Northern America. (See ALGA's submission to the Regional Business Development Analysis Panel, August 2002 - <http://www.alga.asn.au/submissions/regionalBizDevSub.php>)

Regional development can take many forms, from specific investment in human services, including health and education, targeted business assistance and structural adjustment packages, to the funding of major infrastructure projects and their maintenance and renewal. The importance of transport and communications infrastructure cannot be underestimated to regional Australia.

Local government plays a strong and critical role in regional development. ALGA calls on the Australian Government to work with and through local government to achieve economic, social, educational and cultural development and growth in all regional areas.

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