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LOCAL
GOVERNMENT
MANAGERS
AUSTRALIA
NATIONAL COUNCIL

**The Secretary
House of Representatives
Standing Committee on Economics, Finance and
Public Administration
Parliament House
Canberra ACT 2600**

House of representatives Standing Committee on
Economics, Finance and Public Administration

Submission No: 293

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Secretary: *[Signature]*

Dear Committee

INQUIRY INTO LOCAL GOVERNMENT COST SHIFTING

The National Council of **Local Government Managers Australia** is pleased to be able to make this submission to the Committee as part of its inquiry into this important intergovernmental financial relations issue. Our Council believes that the Inquiry provides an excellent opportunity for Australian government, at all levels, to review the nature of our changing relationship such that they are able to continue to provide a high level of service to the Australia community. The members of the National Council have been actively involved in encouraging individuals, councils and local government associations to be informed about this Inquiry and to make submissions to it. Our brief submission is based on information already presented to the Inquiry, that cost shifting, or unfunded mandates have been imposed on Local Government by other levels of government, and identify key issues which we believe Commonwealth and State Governments must address if our system of Local Government is to remain a model of effective local governance.

In this submission we will first comment on the general outcome that is apparent across the many submissions presented on your web site. We will then identify the issues, or questions that these submissions raise, and suggest ways in which the Commonwealth can facilitate arrangements such that all Local Governments across Australia are able to provide the optimum level of service to their communities.

The empirical evidence presented in a number of submissions confirms that cost shifting from State to Local Government has occurred, most noticeably from the mid 1990s. The Department of Transport and Regional Services' submission to this Inquiry provides a comprehensive analysis of the nature and degree of change in source of revenue for Australian Local Government. This is a valuable insight which benefits from access to Commonwealth Grants Commission data. Unfortunately none of the State Governments have so far provided aggregate financial information relating to revenue sharing. Specifically, in addressing TOR 2 (Table 2.5, p 23) the DOTARS cites CGC data (CGC Review, 2001, p.50) showing that from 1974-75 to 1997-98 Commonwealth funding to Local Government increased from 10.5% to 12.1%, while State funding declined from 14.8% to 7.1%. Local Governments own efforts in revenue generation in this same period increased from 74.7% to 80.8%. This change in the source of Local Government revenue does impact on individual councils ability to deliver efficient and effective services. Of concern to Local Government managers is the ability of council organisations to provide relevant, value for money services such that these organisations are sustainable, over the long-term.

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The National Council was also interested to read the Final Report of the Review of Commonwealth-State Funding released in August this year, prepared by Dr Vince Fitzgerald and Professor Ross Garnaut on behalf of the Treasurers of New South Wales, Victoria and Western Australia. While this report highlights the significant overhead costs incurred as a result of the increasing inefficiencies in the methods of distributing general and specific purpose payments - recognising that 'the Australian Federation is now a deeply integrated economic entity' - it also identifies that 'Australia has had [since World War II] a much larger mismatch between expenditure responsibilities and revenue at each level of government than any other Federation. ...*which became bigger than ever in the 1990s*' (p. 1 *our emphasis*) The issues and questions we raise below recognise that any consideration of State-Local financial relations must be considered within the broader context of Commonwealth-State-Local financial relations. How all levels of Australian Government cooperate to do this challenges our shared leadership responsibilities.

It is clear from the information provided to your Inquiry that State Governments have, since the mid 1990s, used their legislative power over local government to require them to deliver a wider range of services to local communities, without a commensurate increase in financial resources. While local governments across Australia have responded by improving their productivity many now claim that if state governments continue with their trend of devolving service delivery responsibilities to them, without commensurate resources, they will become financially unsustainable. While Local Government is proud of its record of providing value for money services with a declining revenue base, relative to increasing costs, we are concerned that there is no attempt by Commonwealth and State Government to work with Local Government to determine optimum levels of service for the wide range of services we now provide. Unless this assessment is carried out and there are valid benchmarks across Australian Local Government, the States, and to a less extent, the Commonwealth Government, will be called upon to rescue Local Governments that become financially, organisationally, and in a local political sense, unsustainable. We believe that to strain our system of local government beyond its ability to recover, amounts to gross mismanagement on behalf of other levels of government with the financial and legislative authority and responsibility to ensure local governments provide value for money services to the communities they serve.

Given the evidence provided to your Inquiry, so far, and our appreciation of the federal context in which Australian local government sits, we believe this evidence raises a number of questions about our system of intergovernmental financial relations. These questions are set out below and are directed at all levels of government, answers to which requires a cooperative response from Commonwealth, State and Local Government leaders.

State Government and Strategic Local Government Choices

How do state governments determine the optimum amount of unfunded service delivery to devolve to local government? Do they know what the thresholds are, that is, the limits to which they can ask local government to take on this extra work before the organisation of local government becomes unworkable? How do state governments assess the institutional and organisational capability of local government to deliver?

As we have mentioned above there is a threshold beyond which local government as a service providing organisation, and a local political system engaging local people on local issues, cannot move beyond without causing irreparable damage to the local institution. State governments need to work with local governments to determine what the criteria are for financial sustainability, and to address these issues with specific councils in an open and transparent manner.

Local Government Performance Management

What performance management systems guide state government to determine the effectiveness of local governments service delivery capacity? What is the 'price sensitivity' of local government services? What is the nature of innovation within local government, give this is now widely recognised as the reason for organisational improvement?

We recognise that local governments play a central role in determining their level of financial sustainability. There is a key leadership role for managers and elected members to identify and communicate to their community accurate information on the financial status of their organisation. Local governments need to constantly work at determining an accurate understanding of the cost of service delivery with elected members being accountable for internal resource allocation decisions, including cross subsidisation choices. Importantly this concern for service cost pricing should not overshadow the need for internal innovation and creativity within local government organisations as part of a constant search for new ways of working. This is a key role for our members, one that we focus on through our professional development initiatives.

Federal and State Government Intergovernmental Negotiations

How do federal and state governments differentiate the performance requirements of different types of local governments, given there is wide variety of local government types, and their capacity to respond to requirements to deliver additional services without commensurate resources? How do federal and state governments negotiate the optimum strategic resource allocation choices to local government, through revenue sharing and tied grant funding, or through special purpose funding? What plans does the Federal and State governments currently have to determine the most effective allocation process? What is the status of the Financial Assistance Grants Act review? What is the nature of the analysis of intergovernmental revenue sharing and local government productivity performance currently carried out and how does this inform the strategic choices of higher levels of government?

We believe addressing these questions will bring some order and transparency into the process of intergovernmental revenue sharing, which is relevant to the work of your Committee. The Fitzgerald and Garnaut research tells us that the Commonwealth and State Governments need to clarify the exact nature of intergovernmental transfers as well as the mechanisms for making these transfers, the overhead cost of which is a serious impediment to the productivity of our federal system of government.

Your Cost Shifting Inquiry raises many questions relating to the ability of the Commonwealth to transfer necessary funds through the States to Local Government. This is largely an issue for the Commonwealth and State Governments. They hold the financial and legislative authority. We believe that the moral imperative lies with the leadership of Commonwealth and State Governments, regardless of political persuasion, to refine the current system such that local government, the service delivery arm of Australian Government, can do what it is set up to do, and does best, deliver services throughout Australia to over 660 local government communities.

Community Accountability

How is this analysis reported to the wider Australian community, in general, and individual local governments, in particular?

This final question we believe needs to be addressed so that claims of cost shifting reduce as the Australian community gains a better understanding of the role and function of each level of government. They have a better appreciation of where their taxes and charges are used, and by which level of government. Fitzgerald and Garnaut observe that that

'Australians have become accustomed to Commonwealth-State financial relations being a locus of continuing conflict between Governments. They understand little of the issues that have been the subjects of conflict, and consign these matters to the dustbin of "politics". This is a pity.' (p.5) Our democratic system of government demands that Australians have a good understanding of the workings of government. We would argue that all levels of government have a duty to inform their citizens as best they can, about the changing nature of government, especially that relating to revenue collection and its allocation across the community to deliver the works and services they require to function as a vibrant and successful economy providing a desirable and congenial community.

Recommendations

In order to address these issues the National Council of LGMA recommends to the Committee:

1. That it request the Commonwealth Government institute a process to explain to the Australian community the changing nature of intergovernmental financial relations across Commonwealth-State and Local Governments including the extent of cost shifting, and the changing nature of funding. For example, the mix of untied versus specific purpose grants to State and Local Government.
2. That the Commonwealth Government institute a research program into the financial viability and economic performance of Australian Local Government so as to identify the revenue and performance requirement thresholds for the different types of Local Governments across Australia.
3. That the Commonwealth Government implements the recommendations from the recent review of the Financial Assistance Grants ACT, as a matter of urgency.
4. That the Commonwealth Government institute a program of financial management best practice in Australian Local Government and to fund seminars for local government managers and elected members around the nation involving the award winners so that other local governments can learn from innovative practice. (It is acknowledged that some work has to been done in recent years along these lines.)
5. That the Commonwealth Government establishes a method, and reports annually, on the changing nature of intergovernmental financial relations in Australia.

Finally, implementing strategic performance management procedures to monitor cost shifting should be "budget neutral" for local government.

We look forward to the opportunity of addressing the Committee on the issues raised in this submission.

Yours faithfully,



**Trevor Starr FLGMA
National President.**