

WESTERN AUSTRALIAN
LOCAL GOVERNMENT ASSOCIATION

9 April 2003

Our Ref: MIC0059/BHWSSubmission

Mr David Hawker MP
Chairman
House of Representatives Standing Committee on
Economics, Finance and Public Administration
Parliament House
CANBERRA 2600

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

Submission No:365.....

Date Received:16/4/03.....

Secretary:

Dear Mr Hawker

INQUIRY INTO COST SHIFTING AND LOCAL GOVERNMENT

I refer to the recently released Discussion Paper "At the Crossroads" on which your Committee was seeking comment from Local Government.

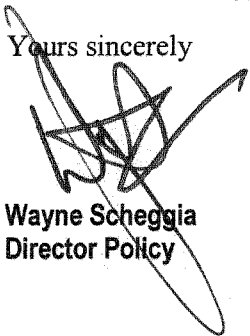
The Western Australian Local Government Association has reviewed the discussion paper and has agreed to tender the attached submission for consideration by the House of Representatives Standing Committee on Economics, Finance and Public Administration.

I also commend to you the Australian Local Government Association five point plan which includes the following points:

- *acknowledge cost shifting occurs and is a substantial problem;*
- *identify the extent of cost shifting, using the Productivity Commission with the State Local Government Grants Commissions;*
- *take measures to ensure public sector revenue is fairly shared across all three spheres of government;*
- *develop an inter-government agreement (IGA) on service provision; and*
- *enforce the terms of the IGA through appropriate compliance provisions.*

This Association look forward to the results of the ongoing work of the Committee and equally will await with interest the final report.

Yours sincerely


Wayne Scheggia
Director Policy

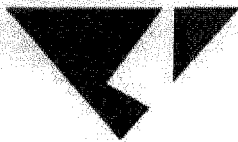
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Western Australian Local Government Association

INQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING

SUBMISSION ON THE DISCUSSION PAPER AT THE CROSSROADS

Introduction

The House of Representatives Standing Committee on Economics, Finance & Public Administration has been conducting the Inquiry into Local Government and Cost Shifting. A discussion paper, "At the Crossroads", was produced by the Committee to assist it with the latter stages of the Inquiry and the Western Australian Local Government Association now presents the following comments as its submission to this phase of the Inquiry.

It is noted that a complete copy of the discussion paper has been distributed to each Local Government by the committee, together with a questionnaire which seeks more specific views on some proposals which are emerging from the Committee's work.

Response to Discussion Paper

1. FINANCE AND COST SHIFTING

Option 1a

Negotiate an umbrella inter-government agreement on FAGs incorporating some or all of the following elements:

- *a clear statement of the Commonwealth's policy intent*
- *adjustment of the escalation factor to match increases in GST revenue or GDP*
- *changes to the interstate distribution to redress apparent anomalies*
- *reduction of the minimum grant to direct additional funds to needy councils*
- *making grants conditional on an adequate revenue effort, the continued viability of recipient councils, and effective arrangements to secure efficiencies through*
- *regional cooperation and resource sharing (including merging councils where appropriate)*
- *removal of unwarranted State restrictions on local government revenue and substantial reductions in cost shifting*
- *reporting on expenditure*

Comment: There is a degree of risk attached in opening up debate on FAGs with such wide parameters. Linking FAGs with a clear statement of policy intent by the Commonwealth

and/or the application of expenditure reporting requirements could be seen as a means of placing conditions on FAGs expenditure which is contrary to the fundamental basis of FAGs.

Discussion on things like the interstate distribution anomalies, Council revenue efforts, necessity for minimum grants and removal of State restrictions on revenue opportunities for Local Government is important as a precursor to any change to the FAGs system, but whether an Inter-Governmental Agreement on FAGs is a broad enough mechanism is not clear.

The fundamental problem with the FAGs system is the inadequate quantum of the funding pool and this is an issue which needs to be on the agenda for any such discussions.

Option 1b

Treat FAGs simply as a tax transfer with a simplified distribution system and formula, administered nationally.

Comment: This approach is too simplistic and would likely reduce the FAGs distribution mechanism to a per capita allocation.

Option 1c

Deliver FAGs through a model of broad-banded program grants to facilitate Local Government's role in key national initiatives such as regional development, transport, environment etc.

Comment: Such an approach makes FAGs conditional on government policy positions which are unacceptable to Local Government.

Option 1d

FAGs to be delivered as tied grants.

Comment: Such an approach makes FAGs conditional on government policy positions which are unacceptable to Local Government.

Option 1e

Consider other horizontal equalisation formulas for Local Government funding such as the SES formula used by DEST for funding the non-government school sector.

Comment: It is not clear how this would be applied and what the benefits would be. It ignores the inadequacy of the funding pool and would create renewed interstate tensions.

Option 1f

Deliver FAGs through the Roads to Recovery model.

Comment: Whilst WA may receive notionally more than its current share of FAGs under this proposal, it still doesn't make the funding pool adequate. This approach would create renewed interstate tensions.

Option 2

Include Local Government in negotiations for the next Commonwealth-State financial agreement and specifically consider:

- *the ongoing financial viability of Local Government in relation to its roles and responsibilities, and the need and scope for increased Federal and State support*
- *the need to reduce cost shifting and revenue restrictions imposed on Local Government (unless already addressed under Option 1).*

Comment: Generally supportable, because it looks at the broader funding question as opposed to focussing on FAGs. An examination of roles and responsibilities in the context of viability may renew the structural reform debate, which is perhaps overdue in some states.

Option 3

Through the Local Government and Planning Ministers Council:

- *investigate the principal factors that impinge on the adequacy and effective utilisation of Local Government's own revenue base*
- *disseminate best practice in council revenue-raising, and recognise the efforts of those Councils demonstrating a responsible and innovative approach to maximising revenue consistent with expenditure needs and community capacity-to-pay*
- *examine the ongoing viability of smaller rural councils and possible need for alternative models of Local Government in some areas.*

Comment: There is some doubt whether the Local Government and Planning Ministers Council is the appropriate vehicle for such work, given its "State-centric" composition. Arguably, it is the State Ministers who are the cause of many of the problems Local Governments are facing and therefore they are not objectively placed to review them. It may be more appropriate for an agency like the Productivity Commission to undertake these investigations.

Best practice recognition and information dissemination is perhaps best left to the Department of Territories and Regional Services, perhaps in conjunction with the Productivity Commission or the Grants Commission, rather than the Ministerial Council.

The examination of viability and structural alternatives should not be focussed only on small rural Local Governments.

2. INFRASTRUCTURE FUNDING

Option 4

Conduct a national study into local infrastructure needs and funding in order to:

- *fill the gaps in current knowledge and reach a national consensus on the magnitude of the problem.*
- *consider a wide range of funding options including local infrastructure levies and increased but cautious use of borrowing.*

Comment: Whilst there would be some advantage in filling the knowledge gap in infrastructure deficit awareness, the bigger issue is the funding question.

Option 5

Maintain Roads to Recovery into the longer term, either in its current form or as a component of AusLink.

Comment: Supported. The continuance of "Roads to Recovery" is a core Association lobby.

3. REGIONAL COOPERATION

Option 6

As a general rule, ensure that Commonwealth-funded programs involving Local Government and a regional planning or delivery mechanism make use of established regional organisations of Councils (or equivalent) rather than establish parallel bodies, provided the ROCs have demonstrated capacity.

Comment: Supported. Obviously the use of existing mechanisms and structures should be more efficient.

4. RATIONALISATION

Option 7

Through the Local Government and Planning Ministers Council:

- *negotiate an intergovernment agreement on principles and procedures for the future transfer of functions and financial obligations from the Commonwealth and/or States to Local Government, as well as the imposition of new functions*
- *regularly review and disseminate best practice in State-Local Government relations, particularly in relation to cooperative planning and service delivery.*

Comment: There is some doubt whether the Local Government and Planning Ministers Council is the appropriate vehicle for such work, given its "State-centric" composition. Arguably, it is the State Ministers who are the cause of many of the "cost shifts" that Local Governments are faced with and therefore they are not objectively placed to negotiate such an agreement.

Best practice recognition and information dissemination is perhaps best left to the Department of Territories and Regional Services, rather than the Ministerial Council.

Option 8

Ensure that Local Government is a party to negotiations and a signatory to all Specific Purpose Program agreements covering functional areas in which it has significant responsibilities, using the Auslink approach as a model.

Comment: Generally Supported. The Auslink approach is essentially one of partnership based on formal agreements between spheres of Governments.

5. CAPACITY BUILDING AND ACCREDITATION

Option 9

Use a 'top slice' of FAGs (perhaps 0.5%) to fund a national capacity building agency along the lines of UK Improvement and Development Agency (IDeA).

Give the capacity building agency responsibility for accrediting councils and regional organisations of Councils wishing to become agents for the delivery of Commonwealth programs.

Comment: Such an approach would effectively reduce the FAGs pool by 0.5% and would be unacceptable to Local Government.

Requiring accreditation of Local Governments to deliver Commonwealth programs could place yet another cost impost on Local Governments.

SUMMARY

To raise such a broad sweep of issues at this late stage adds to the complexity of the inquiry, and distracts attention from the core issue at stake – namely addressing the serious and sustained practice of cost-shifting to Local Government.

The ALGA's supplementary submission provides a useful and realistic way forward calling for a five-point plan to address cost-shifting.

Essentially the Commonwealth should:

- *acknowledge cost shifting occurs and is a substantial problem;*
- *identify the extent of cost shifting, using the Productivity Commission with the State Local Government Grants Commissions;*
- *take measures to ensure public sector revenue is fairly shared across all three spheres of government;*
- *develop an inter-government agreement (IGA) on service provision; and*
- *enforce the terms of the IGA through appropriate compliance provisions.*