



Local government at the crossroads

Local government in Australia is facing the challenge of increased demand for community services and facilities at a time when its share of overall government revenue has been in decline. Graham Sansom looks at some of the issues facing the House of Representatives Economics Committee as it investigates the funding available to our third tier of government, now responsible for much more than 'roads, rates and rubbish'.



By international standards Australian local government is small: it accounts for only 4% of total government revenue and 5% of expenditure.

With the exception of Brisbane, Australia lacks the tradition of strong city governments found in Europe, the United States and elsewhere. Here, local government was established by the former colonies largely as an administrative convenience: to provide local services that could not be managed effectively by central government, and to raise additional taxes to pay for those services. Local government remains entirely under the control—some would say at the mercy—of the states, although some Commonwealth legislation also applies.

So why should the federal parliament inquire into the finances and responsibilities of over 700, mostly small, local councils? Some of the answers are obvious, others require more thought and perhaps a little vision.

Reason One: Even only 4–5% of government revenue and expenditure is worthy of attention. Whether that money is used efficiently or inefficiently, wisely or foolishly, can make a difference to national wellbeing. Business certainly argues that the level of local taxes and charges can have a significant impact on competitiveness and the bottom line.

Reason Two: The basis for establishing local government in the first place still holds good. The community needs and demands many services and facilities that are best managed locally. And local government's range of activities is expanding rapidly, diversifying from traditional property-based services ('roads, rates and rubbish') into urban planning, environmental management, recreation and culture and other human services.

This has occurred as a result of both new legislated mandates (frequently un- or under-funded) and community pressure, often fuelled by the offer of federal or state grants. It also reflects the emergence of a group of much larger, better resourced councils in metropolitan areas and major regional centres. They have the potential to play a still greater role.

Reason Three: Substantial federal funding is at stake. Since the mid-1970s the Commonwealth has provided untied financial assistance grants (FAGs) to local government. These now cost about \$1.4 billion each year. They are complemented by specific purpose grants to facilitate local council involvement in a variety of Commonwealth programs—the Natural Heritage Trust, child care, aged persons accommodation, services to Indigenous communities, regional development and many more.

Reason Four: Significant problems are looming. Although local government's responsibilities have increased dramatically, its share of total government revenue and expenditure has actually declined. Local government lacks a 'growth tax'. It is highly dependent on property rates and service charges, both of which are sensitive to the limited capacity-to-pay of those on lower incomes. Both the Commonwealth and especially the states have grown much faster over the past few decades. Had local government revenues grown as fast as those of the Commonwealth over the past 40 years—but still considerably slower than the states—councils would have more than \$3 billion extra to spend each year.

The result of limited revenues is that new local government functions have been funded by cutting back on traditional areas, chiefly roads and asset maintenance. This now threatens a crisis in infrastructure provision and renewal. Available figures suggest that nationally local government is under-spending on maintenance by at least \$1 billion per annum—and that excludes a further shortfall in providing new or upgraded infrastructure.

Continued on page 16



More robust local government is essential to improve local services across Australia.



Continued from page 15

Already, the Commonwealth has had to come to the rescue with its \$1.2 billion *Roads to Recovery* program. That may be just a down-payment.

Reason Five: The Commonwealth should be concerned about the way some states manage local government. The inquiry's terms of reference highlight perceived cost shifting from the states to local government. There is evidence that the growth in state grants to councils has declined significantly since the Commonwealth introduced FAGs. In some states this has been compounded by arbitrary limits on rate increases and imposition of levies on councils to fund state services, reducing local government's capacity to meet other community needs. In effect, some of the Commonwealth's money intended to improve local services has been diverted.

Having considered all that and more, what future directions might the House Economics Committee inquiry suggest?

Recent changes to local government's responsibilities have occurred largely in a policy vacuum. Federal or state agencies identify specific programs which they would like to administer through local councils, and then legislate or provide funding accordingly. There has been little coordination of these initiatives, either nationally or within states. Nor has there been any intergovernment consensus on the broad role local government should play.

In part this reflects lack of recognition of local government in the federal Constitution. But the Australian Local Government Association has been a member of the Council of Australian Governments since its inception, there has been a Local Government Ministers Council for many years, and local government actively participates in a growing number of other ministerial councils. So there are ample opportunities to consider how it can best contribute to the overall system of government.

In the late 1980s the Commonwealth supported a 'rationalisation exercise' to examine opportunities to coordinate some service delivery through local government. This possibility is echoed in the current inquiry's terms of reference. The 1980s exercise made little progress: federal agencies seemed mostly disinterested and the states

hardly participated. But it did reinforce emerging ideas about integrated strategic planning that have since taken root and point the way to improving cooperation between governments. Queensland in particular has vigorously pursued this option.

Another theme to emerge is that of formal protocols and partnerships between local government and the states (and, very briefly in 1995–96, an 'accord' with the Commonwealth). Agreements on various issues have been negotiated from time to time in most states.

In Tasmania, for example, the Premier has negotiated partnerships with individual councils, regional groups and the local government association. These agreements address both planning and service delivery. They aim to "facilitate the role of local government in a strategic way which will, in turn, drive their local economies and communities".

This is an interesting and apparently productive model for the inquiry to consider. It could be applied, for example, to Commonwealth programs for regional Australia, and to promote better strategic planning for transport, as advocated by the Deputy Prime Minister.

But the central issue remains finance. More robust local government is essential to improve local services across Australia, to tackle emerging problems with infrastructure, and for the Commonwealth to get the best return on its substantial investment in grants. It is very much in the Commonwealth's interests to take the lead in formulating a better policy framework. ■

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The House of Representatives Economics Committee inquiry into local government and cost shifting has commenced public hearings. The Committee Chair is David Hawker (Member for Wannan, Vic) and the Deputy Chair is Anna Burke (Member for Chisholm, Vic). For information on the inquiry visit: www.aph.gov.au/house/committee/efpa/localgovt or phone: (02) 6277 4587 or email: efpa.reps@aph.gov.au

Local government's range of activities is expanding rapidly. Photos: Brisbane City Council and Local Government Focus