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The Parliament of the Commonwealth of Australia

# **Rates and Taxes:**

**A Fair Share for Responsible Local Government**

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

October 2003  
Canberra

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# Contents

Foreword.....	vii
Membership of the Committee.....	ix
Terms of reference.....	xi
Abbreviations.....	xii
Glossary.....	xv
List of recommendations.....	xvii

## REPORT

<b>1 Scope of the Inquiry .....</b>	<b>1</b>
Conduct of the Inquiry .....	2
Structure of the Report.....	2
<b>2 Roles and responsibilities .....</b>	<b>5</b>
Diversity of roles and responsibilities.....	5
Roles of capital cities compared to rural/remote areas.....	7
<b>Growth in local government functions.....</b>	<b>9</b>
Why have local government functions increased?.....	11
Managing community expectations .....	12
<b>Can roles be defined? .....</b>	<b>16</b>
Partnerships – State/local government.....	17
<b>An inter-governmental agreement .....</b>	<b>19</b>
Representation of local government.....	22
Formalisation of the recognition of local government .....	23

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<b>3</b>	<b>Cost shifting</b> .....	<b>25</b>
	<b>The extent of cost shifting</b> .....	<b>26</b>
	Cost shifting in \$ terms .....	28
	<b>Nature of cost shifting</b> .....	<b>30</b>
	State grants to local government .....	36
	<b>Restrictions on revenue raising</b> .....	<b>39</b>
	Rate capping .....	41
	National Competition Payments .....	45
	Non-rateable land .....	47
	<b>Addressing cost shifting</b> .....	<b>50</b>
	An IGA .....	50
	Local Government Impact Statements .....	51
	Specific Purpose Payment Agreements .....	53
<b>4</b>	<b>Infrastructure</b> .....	<b>57</b>
	<b>Local government's role in infrastructure</b> .....	<b>58</b>
	<b>The extent of infrastructure needs</b> .....	<b>59</b>
	An infrastructure study .....	61
	<b>Roads funding</b> .....	<b>62</b>
	Local Roads grants .....	63
	Roads to Recovery .....	64
	<b>Funding the infrastructure shortfall</b> .....	<b>67</b>
	Tying and increasing Federal funding .....	67
	Increasing local government revenue .....	68
	Private sector involvement .....	72
	Whole of government approach .....	73
	Committee conclusions .....	74
<b>5</b>	<b>Capacity building in our regions</b> .....	<b>75</b>
	Federal and State initiatives .....	75
	Capacity building agency .....	77
	Forum of officers at manager level .....	79
	<b>Performance monitoring</b> .....	<b>81</b>
	<b>Structural reform</b> .....	<b>83</b>

Amalgamations .....	83
Regional cooperation and resource sharing.....	90
<b>6 Commonwealth funding of local government.....</b>	<b>99</b>
<b>History of General Purpose Assistance.....</b>	<b>100</b>
<b>Current Issues relating to financial assistance grants .....</b>	<b>107</b>
Interstate distribution and equalisation principles .....	108
The quantum of funds.....	112
Certainty of funding .....	117
Minimum grants .....	121
A growth base for FAGs .....	124
Tying FAGs .....	125
Local Government Grants Commissions.....	125
Direct payment of FAGs to local government .....	128
Federal and Local Government Finance Advisory Group .....	132
<b>A new approach to funding local government.....</b>	<b>134</b>
<b>7 The way forward .....</b>	<b>141</b>
Summit on Inter-governmental Relations.....	142

## **APPENDICES**

<b>Appendix A: List of Submissions and Exhibits .....</b>	<b>147</b>
<b>Appendix B: List of Hearings and Witnesses .....</b>	<b>165</b>
<b>Appendix C: Cost Shifting Examples .....</b>	<b>181</b>
<b>Appendix D: History of the Interstate Distribution of Local Roads Grants .....</b>	<b>189</b>
<b>Appendix E: Main Findings from the CGC Review .....</b>	<b>193</b>
<b>Appendix F: Local Government Financial Assistance Grants.....</b>	<b>199</b>





## Foreword

This major Inquiry into Local Government and Cost Shifting has addressed not only the matter of cost shifting but also revealed the underlying issues relating to governance arrangements between the three spheres of government.

I am delighted that this report is a unanimous report of the House of Representatives Economics, Finance and Public Administration Committee.

There is no doubt that local government has, over a number of years, been on the wrong end of cost shifting largely by State governments. The Commonwealth Grants Commission has recorded that over the last 25 years the Federal government has, in real terms, progressively increased its contribution to local government while State contributions have not grown.

However, the overriding message is very clear. To fix cost shifting on the part of all levels of government, we need to review our governance arrangements and the way our taxes, including rates, are spent. Cost shifting can be seen as a symptom of the current weaknesses in our system and it is the responsibility of all spheres of government to address the matter.

As the Committee heard, the duplication and coordination costs of all levels of government in Australia under the current arrangements probably amount to more than \$20 billion per annum.

The report identifies the current roles and responsibilities of local government and the growth of its functions. The extent and effects of cost shifting are detailed as are the major problems facing local government's deteriorating infrastructure. The benefits of regional co-operation are explored and the history of Federal government funding of local government is examined and a new approach, which could resolve the outstanding problems with the current arrangements, is recommended.

One of the key recommendations of the report is for need for a national Summit on Inter-governmental Relations where all three spheres of government can work out a better way to manage our financial relationships and governance, in particular:

- tri-partite partnerships - which level of government does what best;
- the current range of local government services and the level of funding to follow functions;
- restrictions on, and the capacity of, local government to raise its own revenue;
- measures to prevent future cost shifting by all levels of government;
- a review of Specific Purpose Programs;
- the state of local government infrastructure; and
- performance monitoring and structural reform of local government.

The Summit on Inter-governmental Relations, if it is to be successful, will require all levels of government to align their efforts, beyond terms of office or party political approaches. If we are to prosper as a nation in an increasingly competitive world, we must unite our efforts.

The Committee received 406 submissions and 128 responses to the discussion paper and during the course of the Inquiry visited every State and the Northern Territory. I would like to thank all those who put so much time into their submissions and travelled many kilometres to appear at hearings.

I also acknowledge the foresight of the then Minister for Regional Services, Territories and Local Government, the Hon Wilson Tuckey, for referring the Inquiry to the Committee.

It is the fervent hope of the Committee that all three spheres of government will adopt this report and use it as a catalyst for a change. By grasping the real opportunities provided through the report's recommendations, the problems identified will not only be addressed but the efficiency of government can be significantly improved.

Finally I would like to take the opportunity to thank all members of the Committee, in particular the Deputy Chair, Anna Burke, for their hard work and determination to cover all the ground outlined in the broad terms of reference and the Committee Secretariat, particularly Susan Cardell and Vanessa Crimmins, for their tireless work.

**Mr David Hawker MP**  
**Chair**



## **Membership of the Committee**

**Chair** Mr David Hawker MP

**Deputy Chair** Ms Anna Burke MP

**Members** Mr Anthony Albanese MP Mr Mark Latham MP (to 11 December 2002)  
Mr David Cox MP (from 11 December 2002) Mr Gary Nairn MP  
Ms Teresa Gambaro MP Hon Alex Somlyay MP  
Mr Alan Griffin MP Dr Andrew Southcott MP  
Mr Peter King MP

## **Committee Secretariat**

<b>Secretary</b>	Mr Trevor Rowe (to February 2003) Mr Russell Chafer (from February 2003)
<b>Inquiry Secretary</b>	Ms Susan Cardell
<b>Adviser</b>	Ms Vanessa Crimmins
<b>Research Officer</b>	Mr Ryan Crowley
<b>Administrative Officer</b>	Ms Katie Hobson



## Terms of reference

Cost shifting onto local government by state governments and the financial position of local government. This will include an examination of:

1. Local government's current roles and responsibilities.
2. Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.
3. The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level including opportunities for councils to work with other councils and pool funding to achieve regional outcomes.
4. Local government expenditure and the impact on local government's financial capacity as a result of changes in the powers, functions and responsibilities between state and local governments.
5. The scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.
6. The findings of the Commonwealth Grants Commission Review of the *Local Government (Financial Assistance) Act 1995* of June 2001, taking into account the views of interested parties as sought by the Committee.

The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.



## **Abbreviations**

ALGA	Australian Local Government Association
ANAO	Australian National Audit Office
ANTS	A New Tax System
ATSIC	Aboriginal and Torres Strait Islander Commission
CCA	Cradle Coast Authority
CGC	Commonwealth Grants Commission
COAG	Council of Australian Governments
DOTARS	Department of Transport and Regional Services
FAGs	Financial Assistance Grants
GOC	Government Owned Corporation
GST	Goods and Services Tax
HACC	Home and Community Care
HFE	Horizontal Fiscal Equalisation
IDeA	UK Improvement and Development Agency
IGA	Intergovernmental Agreement
JCPA	Joint Committee of Public Accounts
LGA	Local Government Association
LGANT	Local Government Association of the Northern Territory

LGAQ	Local Government Association of Queensland
LGASA	Local Government Association of South Australia
LGAT	Local Government Association of Tasmania
LGB	local government body
LGGC	Local Government Grants Commission
LGMA	Local Government Managers Australia
Lgov NSW	Local Government Association of NSW and Shires Association of NSW
MAV	Municipal Association of Victoria
NCC	National Competition Council
NCP	National Competition Policy
NSROC	North Sydney Regional Organisation of Councils
PFA	Police Federation of Australia
ROC	Regional Organisation of Councils
R2R	Roads to Recovery
SEQROC	South East Queensland Regional Organisation of Councils
SES	Socio-economic status
SPP	Specific Purpose Payment
SRAC	Structural Reform Advisory Committee (WA)
SSROC	South Sydney Regional Organisation of Councils
ULGAQ	Urban Local Government Association of Queensland
VDOI	Victorian Department of Infrastructure
VFI	Vertical Fiscal Imbalance
WALGA	Western Australian Local Government Association





## Glossary

Doughnut Council	A significant regional town surrounded by a shire with a smaller population.
Equalisation Principles	Putting all States onto a level fiscal playing field. Under these principles States which experience cost disadvantages or revenue raising disadvantages receive a higher per capita share of Commonwealth assistance.
Financial Assistance Grants (FAGs)	These are 'untied' funds (not tied to a specific purpose) which the Commonwealth grants to local government under the Act through the respective State governments. FAGs to local government are supplied to States as 'tied' (for a specific purpose) but once distributed to local government are 'untied'. They comprise two components: 'general purpose' and 'local roads'.
General Purpose Grant	This is one of two components (the local roads grant being the other) of the financial assistance grants to local government. The objective is to strengthen local government by addressing the vertical fiscal imbalance caused by local government's narrow tax base. They are distributed between States on a per capita basis and within States on a horizontal equalisation basis in accordance with the National Principles.

Horizontal Fiscal  
Equalisation (HFE)

This is the distribution of general purpose grants to local government, with the objective of ensuring each council is able to function, by reasonable effort, at a standard not lower than the average standard in the State and takes account of differences in expenditure required in performing its functions and in the capacity to raise revenue.

Local Roads Grant

This is one of the two components (the other being the general purpose grant) of the financial assistance grant to local government. It was formerly provided as a tied grant and became 'untied' from 1 July 1991. It continues to be identified and distributed according to the former tied grant arrangements. It is distributed between States on the basis of historical shares and within States on the basis of road expenditure needs.

Vertical Fiscal  
Imbalance (VFI)

VFI is caused by the uneven distribution of taxing powers and expenditure functions.



## List of recommendations

### 2 Roles and responsibilities

#### Recommendation 1

The Committee recommends that the Prime Minister and the Treasurer meet with State and Territory Premiers/Chief Ministers and Treasurers and local government to develop a Federal-State inter-governmental agreement which identifies:

- the roles and responsibilities of local government in delivering Federal and State programs;
- policy priorities and strategies at the local level;
- the allocation of funds and resources from the Federal and the State governments to local government in order to fulfil its responsibilities; and
- the expected performance and funding responsibilities on the part of all levels of government. (para 2.75)

#### Recommendation 2

The Committee recommends that local government nominate one representative from each State and the Northern Territory to represent local government at Federal-State inter-governmental agreement negotiations. (para 2.80)

#### Recommendation 3

The Committee recommends that the Minister representing the Minister for Local Government, Territories and Roads propose, as a precursor to the Summit on inter-governmental relations, a resolution that the House of Representatives recognises local government as an integral level of governance of Australia. (para 2.89)

### 3 Cost shifting

#### Recommendation 4

The Committee recommends that, when developing Federal-State inter-governmental agreements, the Federal government consider:

- including representation from local government during negotiations; and
- requiring a commitment from State governments to identify and provide a share of payments to local government when it is seen as having a significant role in delivery of programs under the agreement. (para 3.95)

#### Recommendation 5

The Committee recommends that, in line with the Tasmanian Partnership Agreement, Federal and State governments pay rates to local government. (para 3.111)

#### Recommendation 6

The Committee recommends that the Prime Minister and the Treasurer meet with State and Territory Premiers and Treasurers and local government representatives to develop a Federal-State inter-governmental agreement which:

- recognises cost shifting as a problem which has occurred over a number of years;
- allocates revenue to local government from the relevant level of government if responsibilities are devolved;
- addresses State restrictions on local government revenue raising such as rate capping, levies and charges and non-rateable land; and
- develops local government impact statements to identify the financial impact on local government of legislation by State and Commonwealth governments. (para 3.123)

#### Recommendation 7

The Committee recommends that the Federal government consider extending ANAO's powers to examine the expenditure of Federal Specific Purpose Payments to and through the States to local government. (para 3.128)

### Recommendation 8

The Committee recommends that the Minister for Finance issue a direction to all Federal agencies to ensure that all renegotiated and future Federal-State SPP agreements:

- describe clear Federal government objectives and measurable outcomes;
- specify performance indicators that are directly linked to the objectives to ensure financial accountability;
- define the roles and responsibilities of each party to the agreement;
- require State governments to report on the volume of funds to be distributed to local government to perform functions; and
- disclose the funding adjustments to be applied to State governments in the case of cost shifting to local government. (para 3.135)

## 4 Infrastructure

### Recommendation 9

The Committee recommends that local government bodies be required to audit the state of their infrastructure (using a nationally accepted methodology) and provide status reports to the Commonwealth Grants Commission as one of the inputs into the needs based formula for Federal FAGs to local government.

- The infrastructure data collected should be used to adjust FAGs where councils are found to be negligent in managing infrastructure. (para 4.29)

### Recommendation 10

The Committee recommends that SPPs directed to local government, such as roads, should be conditional on States not reducing their effort. (para 4.51)

## 5 Capacity building in our regions

### Recommendation 11

The Committee recommends that the Local Government and Planning Ministers' Council establish a body along the lines of the UK IDeA to address capacity building. This body should also oversee the Federal and State governments' best practice awards. (para 5.19)

**Recommendation 12**

The Committee recommends that the Federal government establish a Local Government Liaison Unit to:

- liaise with State departments of Local Government and local government peak bodies to strengthen Federal/State/local relations;
- provide the contact point and conduit for local government at the Federal level and provide information on new Federal initiatives, policies and programs;
- receive feedback on the performance of Federal programs and any cost shifting occurrences; and
- coordinate periodic strategic meetings and policy briefings for a Federal and local government officers' forum and other interested parties as required. (para 5.26)

**Recommendation 13**

The Committee recommends that the Commonwealth Grants Commission, in consultation with the LGGCs in each State, assess the efficiencies of amalgamations or regional cooperation of local government, and use available mechanisms to adjust FAGs grants for the benefit of the sector at large.

- To facilitate amalgamations, where appropriate, councils should not be financially penalised through a net loss of FAGs payments for four years. (para 5.67)

**Recommendation 14**

The Committee recommends that the Federal government:

- continue to develop partnership arrangements with local government on the delivery of Federal programs and service delivery; and
- as appropriate, engage established regional organisations of councils, or similar regional bodies, which have demonstrated capacity, in regional planning and service delivery. (para 5.89)

## 6 Commonwealth funding of local government

### Recommendation 15

The Committee recommends that the Commonwealth, States and local governments consider what tax design improvements would be necessary to eliminate tax on tax effects arising out of the GST. (para 6.65)

### Recommendation 16

The Committee recommends that a new methodology for the distribution of FAGs to local government be designed which incorporates the following elements:

- a national model which is consistent across each LGB;
- distribution of funds on equalisation principles ie on the basis of need;
- funds to be paid direct to local government;
- funds to remain untied and be allocated from one pool;
- data on local conditions/factors to be provided by LGGCs;
- a weighted factor be applied to indigenous community councils to ensure their level of disadvantage is taken into account;
- appropriate acquittal arrangements; and
- a new model, as presented by Professor Farish, to be designed by a Federal and Local Government Finance Advisory Group of experts and phased in over three years, with the process to be facilitated by the Commonwealth Grants Commission. (para 6.164)

## 7 The way forward

### Recommendation 17

The Committee recommends that COAG host a Summit in 2005 on Inter-governmental Relations:

- to report on the implementation of the Committee's recommendations;
- to review:
  - ⇒ SPPs paid to States and Territories with a view to isolating funds for direct payment to local government;
  - ⇒ the relevant anomalies of ANTS;

- ⇒ the revenue raising capacity of councils with consideration of financial penalties for States and Territories which fail to adequately support or deliberately suppress that capacity; and
- ⇒ successful State/local government partnerships and the opportunities for Federal government participation in those partnerships;
- to determine processes to develop:
  - ⇒ methods to resolve duplication and overlap of service provision;
  - ⇒ a fully responsible financial role for local government free from policies that arbitrarily limit revenue raising capacity from their normal sources;
  - ⇒ a direct financial relationship between the Commonwealth and local government;
  - ⇒ a national methodology for local government bodies to evaluate their infrastructure needs and requirements; and
  - ⇒ a set of principles to reduce cost shifting and unfunded mandates and to ensure that Commonwealth and State and Territory responsibilities administered by local government are adequately funded. (para 7.19)

#### **Recommendation 18**

The Committee recommends that the Federal Treasurer assume responsibility for the financial relationship with local government. (para 7.20)



## Scope of the Inquiry

- 1.1 On 30 May 2002, the Minister for Regional Services, Territories and Local Government, the Hon. Wilson Tuckey MP, wrote to the House of Representative Economics, Finance and Public Administration Committee asking it to inquire into the issue of 'local government and cost shifting'.
- 1.2 Following the acceptance of this reference, the Committee examined a diverse range of matters relevant to the issue of local government and cost shifting including local government funding, its roles and responsibilities in society, capacity building and regional approaches to service delivery and cooperation. Moreover, the Committee has also investigated a number of other areas relevant to this Inquiry including infrastructure requirements, local government amalgamations and a whole of government approach to service delivery.
- 1.3 The terms of reference also charged the Committee with inquiring into the findings of the Commonwealth Grants Commission's review of the *Local Government (Financial Assistance) Act 1995* which was released in June 2001. The Inquiry was to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.
- 1.4 The main objective of this Inquiry has been to tackle the serious problem of cost shifting onto local government and in doing so ensure that this sphere of government is appropriately financed to more effectively and efficiently serve the community.

## Conduct of the Inquiry

- 1.5 On 30 May 2002 the Inquiry was first advertised in the media. Following the initial media release, letters were sent to all local government bodies, as well as to numerous relevant parties across Australia, inviting them to contribute to this Inquiry by addressing the six terms of reference set out by the Minister.
- 1.6 Subsequent to this initial request for input, the Committee released a discussion paper entitled *At the Crossroads: Inquiry into Local Government and Cost Shifting* which sought further input via a questionnaire encompassing several key issues. The Committee received 128 responses to the questionnaire.
- 1.7 The Committee received over 400 submissions from a wide range of sources including councils, private citizens, Local Government Associations (LGA) and State and Federal government departments. The Committee was disappointed by the lack of input by State governments. A list of submissions received is at Appendix A.
- 1.8 The Committee also conducted 17 public hearings, which involved visits to each State and Territory. The Committee heard from a diverse range of witnesses representing a number of interests including local government, unions, private organisations, grants commissions and Federal government departments. A list of witnesses who appeared before the Committee is at Appendix B.
- 1.9 Submissions received and transcripts of evidence can be found on the Committee's web site:  
[www.apf.gov.au/house/committee/efpa/localgovt](http://www.apf.gov.au/house/committee/efpa/localgovt)

## Structure of the Report

- 1.10 The report is structured in the following way:
- Chapter 2 examines the roles and responsibilities of local government including the growth in functions of councils, the management of expectations and the possibilities of rationalising the functions of the different spheres of government.
  - Chapter 3 encompasses the key area of cost shifting including its impact on councils as well as possible solutions to combat it.

- Chapter 4 deals with one of the major affects of cost shifting – the decline in the maintenance of local government infrastructure.
- Chapter 5 considers capacity building in our regions, and in doing so examines performance monitoring and structural reform.
- Chapter 6 examines the funding of local government, in particular, the Federal financial assistance grants (FAGs) system, as well as alternative funding models.
- Chapter 7 discusses the way forward on inter-governmental financial relations and calls for a Summit.

## **Roles and responsibilities**

### **Diversity of roles and responsibilities**

2.1 There are 721 local governments bodies (LGBs) in Australia, including 97 indigenous community councils in Queensland, the NT and WA. The diversity amongst councils in each of the States and the NT is vast as there are significant differences in:

- size and population;
- road length and infrastructure;
- fiscal position, resources and skills base;
- physical, social and cultural environments;
- attitudes and aspirations of their communities; and
- state legislative frameworks.

2.2 The differences in size and population between councils are demonstrated by 2001-02 statistics:

- the average population of local governing bodies was 26,400, however, 50% of councils have fewer than 6490 residents. Brisbane City Council had 899,604 residents, while Silverton Village in remote NSW had about 58 residents;
- the Shire of East Pilbara covered the largest area of 378,533 sq kms, while one of the smallest in area was the urban Shire of Peppermint Grove which covered 2 sq kms. Some councils, including indigenous

community councils, are recorded as having no area because their boundaries are not defined;

- the population of the metropolitan council of East Fremantle is 6660, similar to the rural agricultural council of Buloke which has a population of 7268. However, their areas are 3 sq km and 8002 sq km respectively.

- 2.3 The range and scale of functions that LGBs perform is a reflection of this diversity.
- 2.4 Constitutional responsibility for local government lies with the States and Territories as they provide the legal framework for councils' operations.
- 2.5 State and Territory Local Government legislation imposes few limitations on what services local government can provide. The Acts give local government wide ranging powers to carry out almost all functions. The intent of these Acts are to provide LGBs with the ability to provide services in response to the changing needs of their communities.
- 2.6 To a significant extent, what individual councils do is a function of their own policy choices. Local government's functions and services often include engineering, recreation, health, welfare, security, building, planning and development, administration, culture and education.
- 2.7 The major differences in form, governance and responsibilities between the States and the NT reflect that:
- a major source of revenue for LGBs in all States is taxes on properties (municipal rates) but the basis upon which the rate is calculated varies between States;
  - water supply and sewerage is a local government function in Queensland, Tasmania and rural NSW, but a State responsibility elsewhere; and
  - LGBs in Victoria, Queensland, WA and Tasmania cover virtually the whole of the State, whereas there are large unincorporated areas in NSW, SA and the NT.<sup>1</sup>

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1 Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. 7.

## Roles of capital cities compared to rural/remote areas

- 2.8 A joint report by the Property Council of Australia and the Council of Capital City Mayors in 2000 referred to the special role of capital city councils; in particular, it recognised their role in commercial activities, cost competitiveness, innovation and cultural tourism as well as the normal role that all local governments have of maintaining the local community.<sup>2</sup>
- 2.9 Capital city councils have made a case that they face unique issues which are not recognised in current grant allocation principles:
- Perth City Council claimed that it deals with issues which are for the benefit of all in the state and it questioned why a small group of ratepayers should carry the financial burden of fulfilling this wider role.<sup>3</sup>
  - The City of Sydney argued that while it serves 30,000 residents, the 'city community' also includes the 250,000 workers, 15,000 businesses, 20-25,000 nightly hotel visitors and 300,000 daily visitors who use the city for a variety of other purposes.<sup>4</sup>
  - Brisbane City Council (BCC) provides major public transport facilities and road infrastructure for the city. In other capital cities, these would normally come under the province of the State. BCC claimed community demand for these provisions reflect Brisbane's status as a capital city, its gateway for tourism and the need to provide the public (and not just Brisbane ratepayers) with an efficient means of moving around.<sup>5</sup>
  - Melbourne City Council claimed that its role places additional obligations and expenditures upon it not encountered by other councils.<sup>6</sup>
- 2.10 The Committee has also heard from many rural and remote councils which are taking on functions traditionally performed by the Federal or State governments. The CEO of the Shire of Yalgoo in remote WA stated:

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2 Property Council of Australia and Council of Capital City Lord Mayors, *The Capital Cities & Australia's Future*, Foreword.

3 City of Perth, Official Hansard, Perth, 6 August 2002, pp. 12-15

4 City of Sydney, Submission No. 179, p. 4.

5 Brisbane City Council, Submission No. 47, pp. 2, 9

6 Melbourne City Council, Submission No. 135, pp. 2-3

Quite frankly, **local government in our region is the last man standing**. The federal government is not represented there at all. We hope to rectify that in some way through an RTC [Rural Transaction Centre]. Very few state government departments venture into our territory, so if anything is going to happen it will be through the local government.<sup>7</sup>

2.11 The Mayor of Barraba Shire Council in rural NSW stated:

In the rural areas ... you have great difficulty in attracting quality people to apply for positions, whether they are in police, health, education or any professional service, such as banking. It is not just in government areas, it is also in private enterprise. It is the professional services. ... So the responsibility of meeting the community expectation to attract those people there falls back on local government. ... Local government are then forced to spend their rate dollars on providing housing, incentives, rent subsidies or some other form of attraction.<sup>8</sup>

2.12 In remote Queensland, Ilfracombe Shire Council runs the post office, the railway station, a general store and a cafe. Aramac Shire Council supplies a surgery for the doctor rent free, accommodation for nurses, and runs a bakery.<sup>9</sup>

2.13 Some submissions referred to Aboriginal Community Government Councils being grossly under resourced to properly carry out their massive and particular responsibilities. For example, the Torres Strait Regional Authority stated that the functions of community councils are wide and varied:

Increasingly they have become involved in a wide range of functions, apart from providing basic community services, including housing, water and sewerage, airport and wharf maintenance, Centrelink agencies, postal services, community courts and policing, administration of emergency relief, broadcasting, and administration of Community Development Employment Projects.<sup>10</sup>

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7 Shire of Yalgoo, Official Hansard, 6 August 2002, Perth, p. 30.

8 Barraba Shire Council, Official Hansard, 29 April 2003, Barraba, p. 770.

9 Aramac Shire Council and CEO, Ilfracombe Shire Council, Official Hansard, 12 March 2003, Longreach, p. 612.

10 Torres Strait Regional Authority, Submission No. 362, p. 8.

- 2.14 The Aboriginal and Torres Strait Islander Commission (ATSIC) Queensland and ATSIC NT referred to the expansion of local government's role and the high level of need within the Indigenous communities, which stems from a history of economic and social disadvantage.<sup>11</sup>
- 2.15 Barunga Manyallaluk Community Government Council, which receives 77.5% of its funding from grants, claimed that its administrative responsibilities are far greater than Municipal Councils.<sup>12</sup> The Committee notes that Melbourne City Council raises approximately 96% of its revenue directly and 4% is provided by the other two levels of government.<sup>13</sup>
- 2.16 On an equalisation basis, the Federal government must consider the revenue opportunities of the capital cities or urban areas. Bundaberg Council claimed that small rural agricultural/medium rural agricultural communities are far more dependent on grant income than large rural and urban communities as this source of income makes up a much greater percentage of their total income (35-43% circa) than is the case with large rural and urban communities, which are usually between 2-10%.<sup>14</sup>
- 2.17 Funding and equalisation methodologies are discussed further in Chapter 6.

## **Growth in local government functions**

- 2.18 Local governments' roles, therefore, are diverse. Also evident is the expansion of the roles beyond those traditionally delivered by the local sector.
- 2.19 Local government has been increasingly taking on responsibility for social functions, such as management of health, alcohol and drug problems, community safety and improved planning and accessible transport. Local government has also been playing an increasing regulatory role in the areas of development and planning, public health and environmental management.

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11 ATSIC Queensland, Submission No. 401, p. 2; ATSIC NT, Submission No. 174, p. 4.

12 Barunga Manyallaluk Community Government Council, Submission No. 295, p. 2.

13 Melbourne City Council, Submission No. 135, pp. 2-3

14 Bundaberg Council, Submission No. 156, p. 7.

- 2.20 In its 2001 review of the *Local Government (Financial Assistance) Act 1995*, the Commonwealth Grants Commission (CGC) found that the composition of local government expenditure had changed including:
- (i) a move away from property-based services to human services;
  - (ii) a decline in relative importance of road expenditure (although it remains the largest function, its level of importance has declined from about half of total expenditure in the 1960s to a little more than a quarter in the 1990s);
  - (iii) an increase in the relative importance of Recreation and Culture, and Housing and Community Amenities (these are now large areas of local government expenditure, each approaching 20 per cent of total); and
  - (iv) an expansion of Education, Health, Welfare and Public Safety services (this has increased from 4 per cent of total expenditure in 1961-61 to about 12 per cent in 1997-98).<sup>15</sup>
- 2.21 A similar expansion of responsibilities of local government has occurred in Canada. According to a Taskforce on the Future Role of Municipal Government there has been 'widespread acceleration of federal, provincial and territorial delegation of duties and responsibilities to municipal governments'. The Taskforce reported this has 'occurred without sufficient consultation and without an appropriate expansion of municipal government powers, resources and autonomy'.<sup>16</sup>
- 2.22 As local government has expanded its roles and responsibilities to meet growing community expectations, the Committee questioned councils about whether they are trying to be all things to all people at a price they cannot pay. The Committee was also concerned that some claims of cost shifting might in fact have been more a matter of poor management: the shifting of resources from core business activities such as infrastructure maintenance to support other government funded programs leaving the sector at large with an ever-increasing asset management problem. Some councils agreed that the time had come simply to say no to Commonwealth and State funding for non-core business programs.
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15 Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. 53.

16 *Policy Statement on the Joint Federation of Canadian Municipalities/Canadian Association of Municipal Administrators Task Force on the Future Role of Municipal Government*, June 2002, p. 2. Online: <http://www.fcm.ca/english/national/role2.htm>, Accessed 1 September 2003.

- 2.23 Not only did the Committee question the expenditure choices of some councils, it noted evidence which suggested that there may be room for further increases in local government's revenue from existing sources including rate increases and special levies for environment or infrastructure provision.

## Why have local government functions increased?

- 2.24 According to the CGC, local government's functions have increased due to the following factors:

- (i) *Devolution* — where another sphere of government gives local government responsibility for new functions;
- (ii) '*raising the bar*' — where another sphere of government, through legislative or other changes, increases the complexity of or standard at which a local government service must be provided, and hence increases its cost;
- (iii) *Cost shifting* — where there were two types of behaviour. The first is where local government agrees to provide a service on behalf of another sphere of government but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand for the service. The second is where, for whatever reason, another sphere of government ceases to provide a service and local government steps in;
- (iv) *Increased community expectations* — where the community demands improvements in existing local government services; and
- (v) *Policy choice* — where individual LGBs choose to expand their service provision.<sup>17</sup>

- 2.25 The Committee considers that where adequate funding is not provided, (i), (ii) and (iii) could be considered types of cost shifting, while (iv) and (v) are a matter of local government choice. Another burden placed on the shoulders of local government is devolved administrative and regulatory responsibilities which are discussed in Chapter 3.

- 2.26 The evidence received by the Committee indicates that many new roles and responsibilities are a consequence of the practice of cost shifting. Local government has extended its activities in the delivery of a variety

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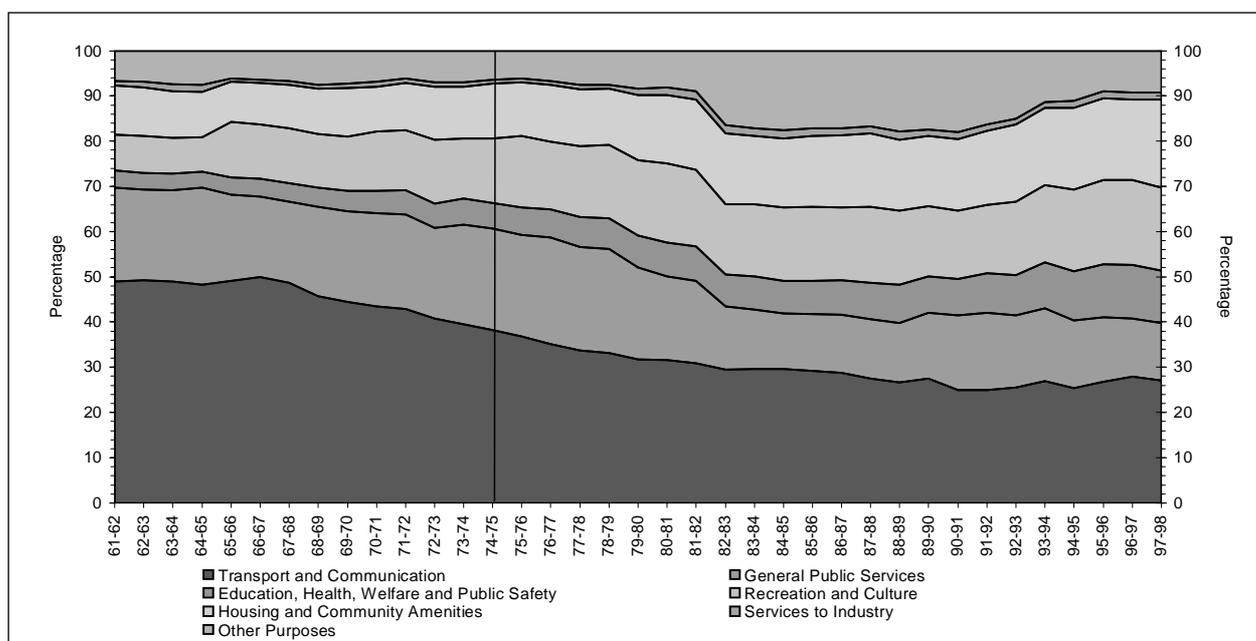
17 Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, pp. 52-3.

of community services funded fully or partly by other tiers of government. Such programs have usually involved specific purpose payments (SPPs) and often require a financial contribution from local government as one of the conditions of funding.

### 2.27 The CGC stated:

Analysis of local government expenditure over the period 1961–62 to 1997–98 shows that the composition of services being provided by local government has changed markedly over the past 30–35 years. Local government is increasingly providing human services at the expense of traditional property - based services (particularly roads).<sup>18</sup>

Figure 2.1 Composition of local government expenditure, 1961-62 to 1997-98



Source Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. 54.

### 2.28 State SPPs to local government are discussed further in Chapter 3.

## Managing community expectations

### 2.29 As demonstrated, local governments' roles are large, complex and expanding.

18 Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. xiv.

- 2.30 In its submission, the SA government referred to a June 2002 paper by the South Australian Centre for Economics Studies (SACES) which indicated that in the next decade there will be spiralling demand for services and increased pressure for expenditure, caused by:
- community requirements for improved standards – some of which will be expectations based, while some will be imposed through legislation;
  - the demand for new services to meet community needs;
  - an increasing asset refurbishment task – as a large range of assets reach the end of their economic life; and
  - the impact of cost shifting.<sup>19</sup>
- 2.31 Councils have argued that they take on further responsibilities because other levels of government pull out of services.
- 2.32 As indicated earlier, the Local Government Acts in each State and the NT have given considerable scope to councils to expand their roles and responsibilities. Local governments as a group make up a network of complex organisations already in place to meet a variety of community needs; therefore, organisational infrastructure and skills already exist.
- 2.33 One council CEO stated that one of the strengths of local government is its ability to deal with the diversity of roles:
- One of the strengths of local government ... is the ability and requirement to reflect and advocate on behalf of our community, to respond to their needs and to respond to the diversity that comes with different populations.<sup>20</sup>
- 2.34 Most councils would like to be able to accept additional responsibilities. They believe they are in the best position to deliver to their communities the services that they require and expect. They claimed that local government is at the coalface, and therefore best placed, to deliver programs which suit local and regional conditions. Clarence City Council stated:
- Organisational infrastructure and skills already exist, and provide a powerful opportunity for limiting duplication across the public sector as a whole.

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19 SA government, Submission No. 266, p. 13.

20 Newcastle City Council, Official Hansard, 29 April 2003, Newcastle, p. 817.

Council would welcome further involvement in programmes which provide tangible benefits to its community, based on clear outcome definitions and a sufficient level of resourcing to meet all costs, including costs to meet the ongoing sustainability of any constructed assets.<sup>21</sup>

- 2.35 Local Government Managers Australia (LGMA) NSW claimed that local government has demonstrated it is a very efficient and effective service provider:

... local government has the experience, expertise, capacity and community backing to take on an enhanced role in strategic planning, asset management and service provision, so long as there is the means to fund the additional responsibilities.<sup>22</sup>

- 2.36 The Australian Services Union discussed the importance of the role of local government in the delivery of services:

They affect the community, they affect the people that live in those communities and in smaller towns they affect real jobs that provide significant employment in those regions. Local government provides an extremely important part of our society. When you get out into the bush and regional Australia, the functions of local government change dramatically to those of local government [in] the city. They are the government, they are the people who provide the services at those local levels and sometimes they are the best equipped to deliver those services because they are, after all, closest [to] the people.<sup>23</sup>

- 2.37 However, the roles of local government cannot expand without funding and resources. Where that expansion is taken over from another sphere of government, without funding or resources, it compounds the financial problems for local government and may reduce public accountability for the relinquishing provider of the service. This is especially true in rural and remote regions, where councils are small and have a very limited revenue base but expectations from the community for a wider range of services than previously delivered.

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21 Clarence City Council, Submission No. 301, p. 3.

22 LGMA NSW, Submission No. 323, p. 5.

23 Australian Services Union, Official Hansard, 27 June 2003, Canberra, p. 889.

2.38 The Shire of Yalgoo suggested that if the State cannot provide an adequate level of education in remote communities, it should transfer its expenditure on education to the local governments:

... We believe that the best approach to the phenomenon known as cost shifting is not to limit the roles and responsibilities of local government but to ensure that local governments are adequately funded to meet their increasing roles and responsibilities.<sup>24</sup>

2.39 Many councils referred to their capacity to deliver programs but indicated that they needed the funding to do it. The CEO of Glenelg Shire stated:

... if we are going to look at imposing new functions on local government, the key to it is: where is the money for local government to provide those new functions? Who was providing the function before, or is it a new function? Who is going to pay for it? ... We have the capacity to provide the new functions: we have people on the ground and we have great capacity to attract people to the regions as well. It is just that we do not have the money to provide those services.<sup>25</sup>

2.40 In many circumstances, local government is confronted with the choice of continuing to fund an activity in total or wearing the political costs of ceasing the activity. These are very difficult choices and they are not problems specific to the local level of government only.

2.41 The Committee contends that all levels of government must tackle this issue of community expectations. In many circumstances the Federal, State and local governments cannot deliver all that is demanded from the community.

2.42 Local government must tell the community it can not deliver everything the community expects. It will be necessary for local government to say 'no' to taking on the void left by other spheres of government.

2.43 A number of local councils are already resisting community expectations and not implementing or continuing programs. For example, Mackay City Council had to say no to providing security cameras and increased security patrols.<sup>26</sup>

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24 Shire of Yalgoo, Submission No. 391, p. 2.

25 Glenelg Shire Council, Official Hansard, 19 February 2003, Box Hill, p. 480.

26 Mackay City Council, Official Hansard, 13 March 2003, Townsville, p. 655.

## Can roles be defined?

- 2.44 As demonstrated above, the roles and responsibilities of local government are diverse and have been growing over a number of years. Roles vary between the States as well as within each State and the NT. Indeed, neighbouring councils often differ considerably in what they do and in their priorities. The findings of the Committee demonstrated earlier in this chapter that urban councils often take on completely different roles to rural councils.
- 2.45 The issue of local government roles is further complicated by the fact that the jurisdictional dimensions of each level of government remain dynamic; the responsibilities of each level of government are continually changing or being transferred. In some circumstances, there has been an overlap of responsibilities between the three levels of government.
- 2.46 If local government were involved earlier in the process of determining service delivery, this could reduce areas of unnecessary overlap or duplication between the spheres of government. Further, the reduction of duplication in advice and service delivery between the spheres of government would improve overall cost effectiveness of government services and achieve significant savings (see Chapter 7).**
- 2.47 The Australian Local Government Association (ALGA) did not encourage the Committee to pursue 'an incredibly resource intensive broad scale roles and responsibilities exercise'. Rather, ALGA recommended that the Productivity Commission in collaboration with State Local Government Grants Commissions (LGGC) progress this work.<sup>27</sup>
- 2.48 In the Department of Transport and Regional Services' (DOTARS) view the priority would be for the Federal, State and local governments to establish agreed statements for respective responsibilities that could be regularly adjusted to reflect agreed changes in responsibility.<sup>28</sup>
- 2.49 Local government is diverse and tailors its business to meet community needs. Given that each council provides local solutions to local issues, there are difficulties in formalising and fixing definitions of roles and responsibilities across the nation.
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27 ALGA, Submission No. 352, p. 2.

28 DOTARS, Submission No. 313, p. 5.

- 2.50 The Committee considers it would be beneficial to establish formal governance relationships and consequent financial agreements between the levels of government (see section on An inter-governmental agreement later in this Chapter).

## Partnerships – State/local government

- 2.51 Significant progress has been made in several states in terms of negotiating state-local government protocols covering areas of shared responsibility and, more recently, through partnership agreements. Partnership agreements are in place or under negotiation in Tasmania, SA, WA and Queensland.
- 2.52 Although the nature of the agreements varies, they represent an attempt to clarify priorities and rationalise the distribution of powers and resources between State and local governments. Partnership agreements enable States and local government to respond to the articulated needs of their communities through an agreed plan and dedicated resources.
- 2.53 In Queensland the partnership arrangement is formalised through a Whole of Government Protocol, which outlines processes for consultation and collaboration and the responsibilities of each tier of government.<sup>29</sup>
- 2.54 In WA the Partnership Steering Group was formed with a ‘commitment to improving cooperation between State and local government to enhance sustainable social, environmental and economic development of WA through consultation, communication, participation, cooperation and collaboration at both strategic and project levels’. The Group drafted a template as a basis for Partnership Agreements suitable for agreements between the State government and individual local governments or the local government sector as a whole.<sup>30</sup>
- 2.55 The SA government has also worked on improving relationships with local government through the Developed Partnerships Program aimed at enhancing service delivery to the community. A Minister’s Local Government Forum was developed to provide advice on key priorities where States and local government can work together to achieve better

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<sup>29</sup> Queensland government, Submission No. 137, p. 3.

<sup>30</sup> WA government, Submission No. 298, p. 7.

outcomes. The Forum was working with local government and the private sector to establish agreements on stormwater management, waste management, planning, natural resource management and regional public transport.<sup>31</sup> Further, the first objective in the Local Government Association of South Australia's (LGASA) *Future Directions: Smarter Governments Working Together* strategy, is to align the efforts, activities and financial relationships of the three spheres of government so that they can work together effectively beyond single terms of office or party political approaches.<sup>32</sup>

- 2.56 In Tasmania, the State government has implemented partnership agreements with a number of councils. These agreements, outline the ways in which the State government and a council or group of councils can find innovative ways of working together to improve the social, economic and environmental situation within a community by reaching mutually agreed goals. Furthermore, these agreements provide an opportunity to examine government service delivery arrangements and for the State and local government to jointly identify measures to improve their design and or delivery.<sup>33</sup>
- 2.57 The Tasmanian initiative seems to offer potentially the most effective inter-governmental framework. When supported by protocols, agreements possess a high degree of credibility. They also provide a forum in which to consider issues such as the roles and responsibilities of both levels of government and the financial situation of local government.
- 2.58 However, the Committee notes that the relationship between State and local governments varies markedly from State to State when it comes to cooperation and negotiation.
- 2.59 The Committee considers that one of the keys to reform is inter-governmental partnerships. Partnerships help to ensure that government services are effectively and efficiently delivered at the local level. They are an important step towards improving the relationship between local government and other spheres of the government in the future.

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<sup>31</sup> SA government, Submission No. 266, p. 7 & Official Hansard, 9 October 2003, Adelaide, p. 289.

<sup>32</sup> LGASA, *Future Directions – Smarter Governments Working Together: Local Government's Proposals to Strengthen Intergovernmental Relations, 2002-2003 Initiatives*.

<sup>33</sup> LGAT, Submission No. 279, p. 11.

- 2.60 Partnerships may include protocols on roles, financial relations, and areas of joint activity and would assist with eliminating overlap and duplication. The partnerships developed in some States could be utilised in the further development of tripartite agreements.
- 2.61 It is time for partnerships also to include the Federal government where appropriate and Federal-local government relations functions should act as a conduit to link common areas of interest between the levels of government. Partnerships and regional cooperation are discussed further in Chapters 5 and 7.

## **An inter-governmental agreement**

- 2.62 There has been much support for a tripartite inter-governmental agreement (IGA) in which the Prime Minister and Treasurer, State Premiers and Treasurers and local government look at issues such as:
- what priorities/needs exist at the local level;
  - what funds are available from the Federal, State and local governments;
  - a commitment from the Federal and the State governments to identify funding to go to local government in order to fulfil its responsibilities;
  - an undertaking from local government to deliver functions; and
  - an agreement on principles for future transfer of functions from the Federal and State governments to local government.
- 2.63 DOTARS stated that if a tripartite approach is considered, the best forum for launching this would be at the Council of Australian Governments (COAG) or Ministerial Council level, to ensure that all levels of government are committed to the outcome from the start.<sup>34</sup>
- 2.64 The Australian Services Union commented on the importance of cooperation between each level of government:
- ... something that allows the three arms of government to work towards ensuring that those services are delivered for all Australians out there in the community and something that

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34 DOTARS, Submission No. 313, p. 7.

ensures, in a cooperative manner, that, where local government are the best people to deliver the service, they deliver the service to the community. That means cooperation, I think, between state governments, national governments and local governments.<sup>35</sup>

- 2.65 Local government has proved it has the capacity to respond to problems and provide solutions and the maturity and experience to deliver services. DOTARS has recognised that in many cases local government can be the best partner to the Federal government for the coordination and delivery of federal programs.
- 2.66 The Committee recognises how successful local government has been on the delivery of services, such as employment, health, environment, roads and aged and community care, on behalf of the Federal and State governments.
- 2.67 DOTARS supported the positive engagement of local government wherever there are Federal government programs that affect the core activities of local government. DOTARS, however, warned that it would be unwise to be too prescriptive when delivering national programs. The best approach is to ensure that whenever a major Federal government program is being developed all possible delivery options are canvassed. This may involve working through regional based organisations or committees, such as Regional Organisations of Councils or Area Consultative Committees. Whatever approach is followed, it is important that local government be consulted and actively involved in the process.<sup>36</sup>
- 2.68 The Local Government Association of Tasmania (LGAT) agreed that earlier and more comprehensive engagement by the Federal government with local government on delivery mechanisms associated with regional activities would be beneficial as this would help maximise coordination, avoid duplication and ensure value for money in service delivery.<sup>37</sup>
- 2.69 The SA government stated that some activities can be mutually enhanced without financial transfers, but rather through increased cooperation and strengthened relationships. However, it stressed that the strategic priorities for Federal government involvement in regional

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35 Australian Services Union, Official Hansard, 27 June 2003, p. 890.

36 DOTARS, Submission No. 334, p. 6.

37 LGAT, Submission No. 279, p. 21.

planning should not be directed at implementing exclusively Federal government priorities.<sup>38</sup>

- 2.70 The LGASA's *Future Directions – Smarter Governments Working Together Program* has been developed to strengthen inter-governmental relations. It encourages local government in South Australia to work collaboratively with the Federal and State governments to more efficiently and effectively serve communities.<sup>39</sup>
- 2.71 ALGA submitted that an IGA on government service provision would require a set of guiding principles that would outline clear roles and responsibilities for each sphere of government in specific areas of service provision and focus on the performance of each sphere through benchmarks.
- 2.72 ALGA argued that the IGA would provide substantial benefits, including:
- more certain policy outcomes as a result of predictable levels of funding;
  - an ability to specify expected performance;
  - a greater level of transparency; and
  - a meaningful framework for reprioritising and reallocating resources within and across the spheres of government.<sup>40</sup>
- 2.73 The Committee agrees that greater predictability, transparency and enhanced performance on the part of all three levels of government would be welcomed.
- 2.74 The Committee contends that if roles and responsibilities of each sphere of government are defined in an IGA, then the business of governance will be improved and duplication of Federal and State programs will be minimised.

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38 SA government, Submission No. 385, p. 1.

39 LGASA, Submission No. 223, p. 4.

40 ALGA, Submission No. 340, p 9.

## **Recommendation 1**

- 2.75 **The Committee recommends that the Prime Minister and the Treasurer meet with State and Territory Premiers/Chief Ministers and Treasurers and local government to develop a Federal-State inter-governmental agreement which identifies:**
- **the roles and responsibilities of local government in delivering Federal and State programs;**
  - **policy priorities and strategies at the local level;**
  - **the allocation of funds and resources from the Federal and the State governments to local government in order to fulfil its responsibilities; and**
  - **the expected performance and funding responsibilities on the part of all levels of government.**

## **Representation of local government**

- 2.76 For effective federalism, local government must be at the table to ensure the optimum split of roles, responsibilities and funding.
- 2.77 Given there are large differences in roles and responsibilities between the States, it may be preferable if local government in each State and the NT be represented at an inter-governmental meeting.
- 2.78 In response to the question of who should speak on behalf of local government in any tripartite agreement, the North Sydney Regional Organisation of Councils (NSROC) offered two options:
- each State local government body be represented as they are representative of their constituents and they are elected from them to act on their behalf in a democratic process. Local government in New South Wales, which has two peak bodies, should address the question of representation from that state (this is the preferred option of NSROC); or
  - numerically limited representation from local government to participate, with local government determining who from ALGA and its state based organisations would represent them.<sup>41</sup>

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41 NSROC, Submission No. 404, p. 2.

- 2.79 The Committee considers the first option of NSROC to be appropriate. It will be up to local government in each State to determine one body to represent them.

### Recommendation 2

- 2.80 **The Committee recommends that local government nominate one representative from each State and the Northern Territory to represent local government at Federal-State inter-governmental agreement negotiations.**

## Formalisation of the recognition of local government

- 2.81 Currently, local government is not recognised in the Australian Constitution and local government has long argued for formal constitutional recognition. Constitutional responsibility for Local government lies with States and Territories, which provide the legal framework for council operations.
- 2.82 Since 1973, the issue of constitutional recognition of local government has generated significant public debate and has been addressed at various forums including five constitutional conventions from 1973 to 1998. It has also been the subject of three reports produced by the Advisory Council for Inter-Governmental Relations and was a focus of the Constitutional Commission (1985 to 1988). In 1974 and 1988, constitutional recognition of local government was considered in referenda to alter the Constitution of Australia. Neither referendum was successful.<sup>42</sup>
- 2.83 Many submissions to the Inquiry called for constitutional recognition of local government. However, ALGA stated that a more formal recognition of local government by the Commonwealth Parliament is desirable and less problematic than constitutional recognition:

Regarding recognition of local government in the governance of Australia, in the past we have made the point to the committee that we needed constitutional recognition, but I think we should be seeking from this committee something much more realistic, and that is a recognition from the parliament that local government has an integral part in the governance of Australia. I take the view that when the Australian public are ready to give constitutional recognition at

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42 DOTARS, Submission No. 387, p. 3.

a referendum then our position will have been so entrenched that it will probably not be required anyway.<sup>43</sup>

- 2.84 In addressing this matter, the Committee considers that the Federal government has already gone a considerable way in recognising local government as a sphere of government through the provision of substantial Federal funding and the representation of local government on COAG and relevant Ministerial Councils.
- 2.85 Constitutional recognition of local government is not the Commonwealth's gift to give. No referendum would ever succeed without total agreement from State governments.
- 2.86 However, the Committee believes that much more can be achieved through this Inquiry for the betterment of the local government sector. An Inquiry such as this occurs once in every 10 – 20 years and as such it has provided the best opportunity for a long time to recognise local government's place in the governance of the nation.
- 2.87 The Committee's Inquiry has brought to light significant evidence that local government functions have increased particularly over the last few decades. The Committee recognises that some of these functions have occurred as a result of policy choice and increased community expectations, while others are a consequence of cost shifting from other spheres of government.
- 2.88 The Committee is of the strong belief that when the recommendations of this report are implemented, they will of themselves formalise the points of ALGA's submission. In Chapter 7 the Committee calls for a Summit to discuss the governance of Australia.

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### **Recommendation 3**

- 2.89 **The Committee recommends that the Minister representing the Minister for Local Government, Territories and Roads propose, as a precursor to the Summit on inter-governmental relations, a resolution that the House of Representatives recognises local government as an integral level of governance of Australia.**

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43 ALGA, Official Hansard, 27 June 2003, p. 888.

## Cost shifting

- 3.1 On the basis of the evidence presented to the Committee, the majority of cost shifting was from State to local government but there was also evidence of cost shifting by the Federal government.
- 3.2 ALGA claimed that cost shifting occurs in (but not exclusively limited to) circumstances where:
1. local government is required to provide services that had been previously provided by the other spheres of government;
  2. other spheres of government require provision of concessions and rebates with no compensation payment;
  3. services are formally referred to, and/or are assigned to local government through legislative and other State and/or Federal instruments without corresponding funding;
  4. local government is required to be the sole provider of essential/important local services that clearly contribute to local, regional, state and national public good;
  5. local government is required to be the sole provider of new and innovative services that have no historical funding precedent;
  6. local government is required to 'pick-up' services as a result of the direct transfer of 'ownership' of infrastructure from another sphere of government;
  7. government policies are imposed that require local government to undertake costly compliance activity [and increased regulations]; and

8. fees and charges that local government is permitted to apply, for services prescribed under state legislation or regulation, are not indexed [or related to increase in costs of provision].<sup>1</sup>
- 3.3 The Committee is of the opinion that cost shifting does not occur where local government voluntarily extends its activities beyond its current responsibilities, including where adequately provided by another sphere of government.

## The extent of cost shifting

- 3.4 The assessment of the true extent of cost shifting from other spheres of government to local government is extremely complex. There is no clear definition of cost shifting, so most representatives of local government were careful not to provide an estimate of the extent of cost shifting.
- 3.5 ALGA did not develop data on the extent of cost shifting because it claimed that there are methodological difficulties as well as a lack of resources to enable a reliable national estimate of cost shifting.<sup>2</sup>
- 3.6 DOTARS stated that it was unable to provide an estimate of the increased costs to local government as a result of cost shifting:

Such an exercise is extremely difficult as there is no agreed definition of cost shifting and there is no agreed allocation of responsibilities of the different spheres of Government in Australia.<sup>3</sup>
- 3.7 Similarly, the LGGCs stated they could not provide an estimate of cost shifting because they do not collect data from councils on the basis of cost shifting or why the expenditures of councils change. The NSW LGGC indicated that there is a challenge in differentiating between expenditure related to council policy, accounting practices and cost shifting. Therefore, things that might be interpreted as an example of cost shifting in terms of one council's budget might not be a cost for another council.

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1 ALGA, Submission No. 141, pp. 10-12.

2 ALGA, Submission No. 340, pp. 6, 9, 10.

3 DOTARS, Submission No. 313, p. 4.

3.8 The Queensland LGGC elaborated on this matter:

When determining the State standard, the Commission considers those functions that an average council would provide and applies these functions to all councils. It is not a part of the Commission's role to consider the appropriateness of the functions or what led councils to provide the service.<sup>4</sup>

3.9 The Tasmanian LGGC stated it had received numerous submissions referring to newer and higher standards being imposed particularly in the environment and health area. However, it stated it was a matter of opinion whether this could be called cost shifting.

An argument can be advanced that Local Government, through its ratepayers and users of the service is the appropriate sphere of government to bear these additional costs and recover them from the users of the service<sup>5</sup>

3.10 The SA government suggested that the issue is not one of shifting costs but more the allocation of tasks and responsibilities, that is:

- whether allocation of responsibilities is with or without revenue or revenue raising power. The aim is to ensure responsibilities are exercised by the area which is most effective;
- whether the allocation is one of choice or foisted on local government (different levels of government may have different priorities); and
- whether the allocation will lead to increased effectiveness and efficiencies.<sup>6</sup>

3.11 The Victorian Department of Infrastructure (VDOI) in its September 2002 report, *Trends in State Funding of Local Government*, argued that while in some areas there have been reductions in State grants, councils have benefited from government policies in other areas. The VDOI further stated that the diversity of trends considerably complicates efforts to assess overall patterns of cost shifting between State and local government.<sup>7</sup>

3.12 ALGA believed that this lack of detailed and comprehensive data allows cost shifting governments to avoid public scrutiny. In light of

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4 Queensland LGGC, Correspondence dated 28 July 2003, p. 1.

5 Tasmanian LGGC, Correspondence dated 21 July 2003, p. 1.

6 SA government, Submission No. 266, pp. 10-11.

7 Victorian Department of Infrastructure, *Trends in State Funding of Local Government*, September 2002, pp. 2- 4.

this, ALGA suggested that the Committee recommend the Productivity Commission undertake a technical assessment and report on the extent and quantum of cost shifting that has occurred from the Federal and the State governments to local government. This, ALGA believed, would be the best way to obtain a credible, robust quantification of cost shifting.<sup>8</sup>

- 3.13 Cost shifting is a complicated issue requiring agreed definitions of what constitutes a shift of costs and services, supported by a robust methodology. The Committee considers that addressing cost shifting and the financing of local government should begin now.
- 3.14 The Committee would like to see the appropriate division of responsibilities of each of the three spheres of government in serving the people of Australia. The Committee hopes that this Inquiry will drive reform of the governance of the nation.

### Cost shifting in \$ terms

- 3.15 The Committee received three estimates of cost shifting on a State-wide basis from Victoria and Queensland:
- the Municipal Association of Victoria (MAV) estimated the cost shift in Victoria to be \$40 million per annum in the recurrent funding of three major specific purpose programs – Home and Community Care (HACC) services, Libraries and Maternal and Child Health. A further \$20 million was estimated to be the cost shift on a range of other specific programs;<sup>9</sup>
  - the CEO of the City of Stonnington provided a similar indicative figure of cost shifting in Victoria at \$10 per head per annum or \$50 million per year;<sup>10</sup> and
  - The Local Government Association of Queensland (LGAQ) surveyed its councils and estimated the overall financial impact of devolved, discretionary or compliance requirements from other levels of government amounted to around \$80 million per annum in outlays. With \$33 million being received in revenue from grants, fees and charges, the cost shift was estimated to be about \$47 million.<sup>11</sup>

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8 ALGA, Submission No. 340, pp. 6, 9, 10.

9 Municipal Association of Victoria, Submission No. 294, p. 22.

10 City of Stonnington, Official Hansard, 27 June 2003, Canberra, pp. 876 & 879.

11 LGAQ, Submission No. 322, p. 7.

3.16 ALGA estimated cost shifting could be between \$500 million and \$1.1 billion per annum.<sup>12</sup>

3.17 Some councils provided comprehensive data and their best estimates of cost shifting. The table below lists councils which provided dollar figures for cost shifting occurring in their local government areas.

Table 3.1 Examples of annual cost shifts

<b>Council</b>	<b>State</b>	<b>Classification</b>	<b>Estimated annual cost shift</b>
Nambucca Shire Council, Sub: 57	NSW	Rural, agricultural, very large	\$1,591,000
Eurobodalla Shire Council, Sub: 394	NSW	Urban, regional, medium	\$732,500
Newcastle City Council, Email dated 30 July 2003.	NSW	Urban, regional, very large	\$4,481,000
City of Albury, Sub: 94	NSW	Urban, regional, medium	\$8,109,000
Manilla Shire Council, Sub: 90	NSW	Rural, agricultural, medium	\$381,479
Guyra Shire Council, Sub: 27	NSW	Rural, agricultural, medium	\$367,000
City of Greater Geelong, Sub: 285	VIC	Urban, regional, very large	\$20,770,500
Moonee Valley City Council, Sub: 263	VIC	Urban, metropolitan, large	\$10,184,500
City of Casey, Sub: 74	VIC	Urban, fringe, very large	\$14,800,258
City of Salisbury, Sub: 192	SA	Urban, metropolitan, large	\$1,930,000
District Council of Loxton Waikerie, Sub: 236 & Email dated 1 August 2003.	SA	Rural, agricultural, very large	\$545,850
Ipswich City Council, Sub:221	QLD	Urban, fringe, very large	\$5,307,504
Redland Shire Council, Sub:152	QLD	Urban, fringe, large	\$2,865,231
Maroochy Shire Council, Sub: 139	QLD	Urban, fringe, very large	\$3,260,000
Sarina Shire Council, Sub: 264	QLD	Rural, agricultural, very large	\$856,230
Diamantina Shire Council, Sub: 145 & Email dated 28 July 2003.	QLD	Rural, remote, extra small	\$1,370,000
Shire of Manjimup, Sub: 219	WA	Rural, agricultural, very large	\$430,100
City of Armadale, Sub: 102	WA	Urban, fringe medium	\$1,801,000
City of Cockburn, Sub:45	WA	Urban, fringe, medium	\$1,061,421

12 ALGA, Email dated 9 July 2003.

## Nature of cost shifting

- 3.18 The Committee recognises that the evidence received does not give an overall dollar figure, however the detail received on cost shifting is comprehensive. The large volume of evidence to the Committee clearly shows that cost shifting onto local government by the States has occurred over many years.
- 3.19 The Committee received over 290 submissions from individual councils or regional council organisations and heard from 118 councils at hearings on cost shifting to local government from the States, the Northern Territory and the Federal government.
- 3.20 The major areas of cost shifting reported were:
- the **withdrawal or reduction of financial support** once a program is established, therefore leaving local government with the choice of continuing a program or suffering the political odium of cancelling the service;
  - the **transfer of assets** without appropriate funding support;
  - the requirement to provide **concessions and rebates without compensation** payments;
  - increased **regulatory and compliance requirements**; and
  - **failure to provide for indexation of fees and charges** for services prescribed under state legislation or regulation.
- 3.21 Examples of these types of cost shifting are provided in Appendix C. This is not an exhaustive list. For further examples of cost shifting refer to the submissions received on the Committee's web site at <http://www.aph.gov.au/house/committee/efpa/localgovt>.
- 3.22 Five of the major areas of cost shifting (community security, fire services, health and welfare, libraries and airports) are discussed below.
- 3.23 Part of the solution to these cost shifting examples lies in the definition of responsibilities of each sphere of government and how funding would match those responsibilities. Also, the involvement of local government earlier in negotiations on inter-governmental agreements is extremely important. The Committee made recommendations in Chapter 2 along these lines (see Recommendations 1 and 2). Further ways to address cost shifting are discussed later in this Chapter.

## Community security

- 3.24 Local government is now providing community security and crime prevention services. Indeed, some local government bodies raise a levy from their community to fund security surveillance programs which employ and train staff to patrol the local government area.<sup>13</sup>
- 3.25 The Western Australian Local Government Association (WALGA) stated that security services or patrols are now a very common sight within many local government areas, particularly metropolitan councils:
- This scheme is where a Council, in responding to community pressure brought about through lack of police resources, has initiated a private security patrol. ... The patrols provide varying degrees of community security at a cost of around \$25 - \$30 per household. The prime outcome is a response of somewhere between 10 and 15 minutes after a report whereas the police may never come or may take several hours.<sup>14</sup>
- 3.26 Councils in NSW believed that the State government has the prime responsibility for crime prevention. However, there are an increasing number of pro-active councils that participate in crime prevention. Moreover, there is widespread community perception that police numbers and services are inadequate.<sup>15</sup>
- 3.27 Councils in other States and the NT complained about the withdrawal of policing services, a traditional responsibility of State governments. However, the Australian Institute of Criminology has reported that police numbers have increased in all States.<sup>16</sup>
- 3.28 The Police Federation of Australia (PFA) was totally opposed to local government undertaking the role as employer of sworn police. Moreover, it was concerned with the lack of professional regulation of the private security industry. Also, the PFA would not like to see a greater proliferation of private policing as opposed to public policing as it believed the people in the community who would suffer the most are those who could not afford their own policing service.<sup>17</sup>

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13 LGMA, Official Hansard, 27 June 2003, p. 877.

14 WALGA, Submission No. 310, p. 10.

15 Lgov NSW, Submission No. 226, p. 21; Mayor, Armidale Dumeresq Council, Official Hansard, 29 April 2003, Barraba, p. 767.

16 Australian Institute of Criminology, *The Composition of Australia's Police Service*, Online: <http://www.aic.gov.au/policing/stats/index.html>, Accessed 30 September 2003.

17 Police Federation of Australia, Official Hansard, 27 June 2003, p. 879.

- 3.29 The PFA noted that the experience in the United States is that best practice and effective policing occurs in large well resourced agencies whilst small local agencies 'are often shoddily run and prone to corruption'.<sup>18</sup>
- 3.30 ALGA also saw significant difficulties in establishing local government run police forces and it was not a direction ALGA would be seeking.<sup>19</sup>
- 3.31 The Committee notes the House of Representatives Standing Committee on Legal and Constitutional Affairs is conducting an Inquiry into crime in the community, including the examination of the adequacy of policing in the community. It is hoped that the evidence received during this Inquiry will be of assistance in the development of recommendations by the Legal and Constitutional Affairs Committee.

### Fire services

- 3.32 The Committee heard that cost shifting is also occurring in fire services. For example, Pittwater Council in NSW claimed that it has heavily subsidised the State government for their fire management. Pittwater Council has established five bushfire brigades and funds much of the fire fighting infrastructure within its shire to protect residents from fires emanating within the nearby national park. Pittwater Council also contributed \$1 million per annum to the NSW Fire Brigade Levy.<sup>20</sup> Councils in other States referred to the costs of collecting fire and emergency services levies on behalf of the State government.<sup>21</sup>
- 3.33 The Committee notes the House Select Committee on Recent Australian Bushfires is inquiring into measures that can be implemented by governments, industry and the community to minimise the incidence and impact of bushfires on, life, property and the environment. The House Select Committee is expected to report in November 2003. The Committee will be interested in the House Select Committee's conclusions on the roles and responsibilities of the different spheres of government, the community and volunteers in fire fighting.

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18 Police Federation of Australia, Submission No. 112, pp. 2.

19 ALGA, Official Hansard, Canberra, 5 September 2002, p. 146.

20 Pittwater Council, Submission No. 55, pp. 7-8.

21 For example: Shire of Gnowangerup (WA), Submission No. 33, p. 5; Dalby Town Council (QLD), Submission No. 231, p. 13; Derwent Valley Council (TAS), Submission No. 81, p. 2.

## Health and welfare

- 3.34 Health and welfare is a major area of cost shifting onto local government.
- 3.35 Many rural and remote councils use their own resources to attract doctors to their areas. Some councils financially support the housing, travel, and salary of doctors, nurses and dentists. For example, to secure medical services, the Shire of Laverton in Western Australia provided incentives totalling \$170,000 per year to retain a doctor and about another \$48,000 per year to nurses who complete at least six months service at the local hospital.<sup>22</sup> Many other councils around Australia provide incentives, such as accommodation, to attract doctors to their area.<sup>23</sup>
- 3.36 The Tennant Creek Council in the NT claimed it does not receive adequate funding to cover the service and compliance costs associated with its delivery of aged care services.<sup>24</sup>
- 3.37 In Victoria, much focus has been on HACC funding. Victorian councils are major providers of human services and many councils claimed that the State and Federal governments have failed to keep funding apace with service costs and increases in demand. Whitehorse City Council stated:

... the Home and Community Care Program is the single largest program in human services in the City of Whitehorse, consuming over 10 per cent of the council's recurrent expenditure. In the last four years, council's overall contribution to the provision of HACC services has increased from 22 per cent to 30 per cent—that is, from \$1.1 million in 1997-98 to \$2.5 million in 2000-01. The greatest increases have occurred in home care, where council's contribution has nearly quadrupled in four years—from \$310,000 in 1997-98 to \$1.1 million in 2000-01.<sup>25</sup>

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22 Shire of Laverton, Submission No. 59, p. 7.

23 For example: Rosalie Shire Council (QLD), Submission No. 177, p. 1; Corowa Shire Council (NSW), Submission No. 39, p. 1.

24 Tennant Creek Town Council, Submission No. 198, p. 6.

25 City of Whitehorse Council, Official Hansard, 19 February 2003, Box Hill, p. 459.

3.38 The City of Ballarat has been reducing the amount of funding towards HACC. The CEO of the City of Ballarat stated that the council:

... clearly recognises the need, but finds that pressures for other priority areas of expenditure, particularly infrastructure, mean that this course of action is absolutely essential.<sup>26</sup>

3.39 MAV stated that local government contribution is currently estimated at more than 30% of the total cost of HACC services, a considerable shift from the 80% Commonwealth/State government – 20% local government basis that originally characterised responsibilities for HACC funding. MAV also claimed that as the Australian population ages, demand will continue to rapidly increase.<sup>27</sup>

## Libraries

3.40 Libraries were another area of cost shifting referred to by councils in every State and the NT. There has been a trend of decreasing State government funding of public libraries over the past 20 years.

3.41 In Victoria the share of recurrent funding of public libraries has fallen from as high as 51% of total expenditure to the present level estimated at about 20%. MAV claimed that, as a consequence, there has been falling investment in book stock and infrastructure.<sup>28</sup>

3.42 In NSW the State government contributed 23.6% of funding to libraries in 1980 while local government contributed 73.4%. By 2000-01 the State's contribution had declined to 8.9% of funding in comparison to local government's proportion of 91.1%. The Country Public Libraries Association of NSW also referred to the substantial costs associated with providing online and electronic information resources as a cost shift from both the State and Federal governments.<sup>29</sup>

3.43 In Queensland local government outlays to public libraries in real terms per capita have almost doubled over the period 1990-91 to 1999-2000. State government funding, however, has only been maintained at the 1990-91 level in real terms per capita. LGAQ claimed that the increased local government funding is required for the increasing membership, an expanding level of services in relation to information technology, and community expectations.<sup>30</sup>

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26 City of Ballarat, Official Hansard, 19 February 2003, Box Hill, p. 537.

27 MAV, Submission No. 294, pp. 28-30.

28 MAV, Submission No. 294, p. 20.

29 Country Public Libraries Association of NSW, Submission No. 35, p. 4.

30 LGAQ, Submission No. 93, p. 19.

## Airports

- 3.44 The Federal government decision to move local airports to a local government responsibility in the 1990s has created a significant burden for local government, particularly in remote areas. The Federal government provided initial funding to the airports but no ongoing funding.
- 3.45 Four councils in Tasmania took over ownership of airports. Two of the councils are island municipalities and have been subject to significant uncertainty and costs. The Mayor of Flinders Island Council described the financial difficulties in maintaining its airport:
- When we were compelled to take over the ownership of the airport we were given a cash advance, some of which was tied. We had to rebuild the airport terminal. We were given \$250,000 to do that, but the actual cost was \$450,000, so that took care of another \$200,000 straight away. Some of it was tied to things like putting in pilot activated lights and the various safety infrastructure facilities, if I can broaden it that way. We ended up with approximately \$750,000. The interest accrued on that was used to offset the expenses of running the airport. Indeed, I took that into account when I said that we are still spending 20 per cent of our rates on maintaining the airport. Of that \$750,000 or so that we had left, we have since spent another \$250,000 on sealing a runway, which we had to do so that we can move out of Chieftains, which we will have to do sooner or later because, sooner or later, CASA is going to ban Chieftains from flying and there are no other aircraft available which can land on an unsealed strip. Our reserve is now down to about \$350,000. We have another runway that we need to seal that will cost us \$3 million. We have a rate base of 650 people.<sup>31</sup>
- 3.46 Whyalla Shire Council in SA claimed that, while the Federal government provided some initial funding when the airport was handed over to council, there are insufficient funds to maintain the runway in the long term.<sup>32</sup>
- 3.47 Diamantina Shire Council in Queensland stated that it is faced with a \$1 million upgrade for its airport which provides critical life support

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31 Flinders Island Council, Official Hansard, 18 February 2003, Hobart, p. 420.

32 Whyalla Shire Council, Submission No. 114, p. 4.

for its communities due to regular flooding. The airport also provides income to the Shire from tourism.<sup>33</sup>

- 3.48 Some councils in NT referred to the high costs of maintaining airstrips.<sup>34</sup> The Local Government Association of the Northern Territory (LGANT) stated that airstrips are very important in the NT because during flooding, sometimes over six months of the year, it is the only form of access.<sup>35</sup>

## State grants to local government

- 3.49 Much cost shifting has occurred by the level of States' grants failing to keep pace with changing responsibilities and cost increases.
- 3.50 ALGA claimed that a base line indicator of the cost to local government resulting from cost shifting is the change in Specific Purpose Payments (SPPs) from the States to local government over time:
- The failure of State SPPs to maintain parity with the growth rate of local government own source revenue, or even Commonwealth payments to local government, represents a significant transfer of responsibility to local government from States.<sup>36</sup>
- 3.51 The steady growth in FAGs and other forms of Federal funding to local government has been accompanied by a relative decline in State support.

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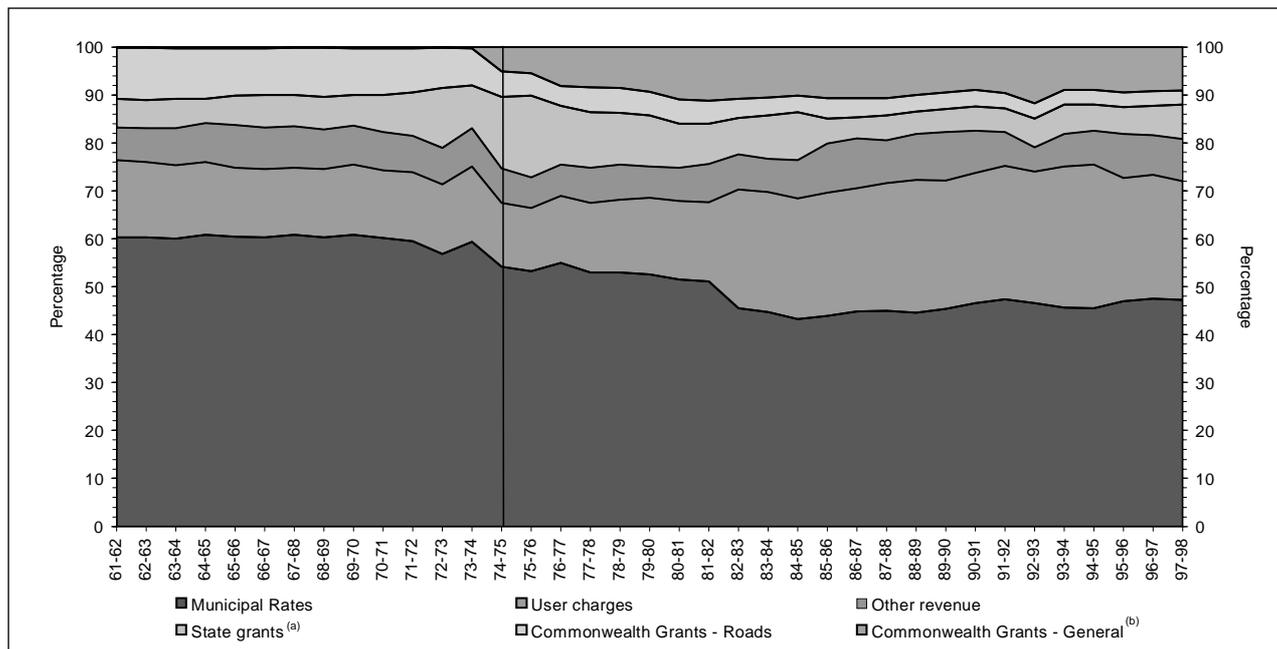
33 Diamantina Shire Council, Submission No. 145, p. 5.

34 For example: Katherine Town Council, Submission No. 134, p. 13.

35 LGANT, Official Hansard, 8 October 2002, Darwin, p. 226.

36 ALGA, Submission No. 141, p.14.

Figure 3.1 Local government revenue sources, 1961-62 to 1997-98



- (a) State Grants include all Commonwealth payments through the States to local government except for the local government financial assistance grants and Local Roads grants.
- (b) Commonwealth Grants - General include local government financial assistance grants and specific purpose payments paid directly to local government.

Source *Commonwealth Grants Commission, Review of the Operation of the Local Government (Financial Assistance) Act 1995, June 2001, p. 51.*

- 3.52 The CGC reported that the level of State SPPs has increased over time, but has fallen as a proportion of local government revenue. Indeed, State SPPs have fallen as a proportion of local government revenue from about 15% in 1974-75 to about 7% in 1997-98.<sup>37</sup>
- 3.53 The CGC report demonstrated that although the amount of State assistance has increased in real terms since 1974-75, its rate of increase (0.4 per cent per annum in real terms) is about one-tenth of the rate of increase of local government own-source revenue (4 per cent per annum in real terms).<sup>38</sup>
- 3.54 Since the introduction of the Act in 1974-75, local government revenue from all sources has grown on average by 3.6 per cent per annum in real terms. The fastest growing revenue source was user charges (6.4

37 CGC, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. 52.

38 CGC, *Working Papers for the Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. 171.

per cent per annum in real terms). Other local government revenue (4.5 per cent), Commonwealth assistance (4.3 per cent) and municipal rates (3.0 per cent) grew at about the average rate. The slowest growing revenue source was State assistance (0.4 per cent).<sup>39</sup>

Table 3.2 Changes in local government revenue sources in constant 1997-98 prices

	Rates	User Charges	Other	Federal Transfers	State Transfers
1974/5	2,842	703	381	550	779
1997/8	5,620	2,947	1,052	1,443	848
<b>Average Annual Growth</b>	3.0%	6.4%	4.5%	<b>4.3%</b>	<b>0.4%</b>

Source Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. 50.

### 3.55 ATSIC Queensland stated:

The steady growth in FAGs and other forms of Commonwealth Government funding to local government has been offset by a relative decline in State Government support. There has also been a very real expansion in the roles taken on by local councils, which has not been matched by this increase in revenue.<sup>40</sup>

### 3.56 DOTARS also referred to local government increasingly looking to the Federal government for revenues due to the decline in State government revenue support:

... the share of revenue coming from State Government has declined. This, combined with the limitations many councils face in increasing their own-source revenue, has placed an increasing focus on revenue from the Commonwealth to support local government activities. This has been recognised by the Commonwealth in the development of the *Roads to Recovery Programme* which has been well received by local governments across Australia.<sup>41</sup>

### 3.57 Guyra Shire Council indicated the amount of Roads to Recovery (R2R) funding received from the Federal government was very close to the amount of cost shifting by the State government; in effect, the Federal

39 CGC, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. 50.

40 ATSIC Queensland, Submission No. 401, p. 1.

41 DOTARS, Submission No. 103, p. 27.

government was funding the State's liability to local government via Roads to Recovery.<sup>42</sup>

- 3.58 The State governments contend that it is not possible to examine levels of State funding for local government in isolation from consideration of levels of Federal government funding to the States. For example, the Queensland government stated:

In Australia, only the Commonwealth has a capacity to raise revenue in excess of its expenditure requirements. Both State and local governments have expenditure responsibilities in excess of revenue raising capacity. The level of financial transfers between the Commonwealth and States, and cost shifting by the Commonwealth to the States impacts on States' capacity to provide additional assistance to local government.<sup>43</sup>

- 3.59 The States claimed that they provide significant specific purpose funding to local governments across a broad range of programs. The WA government listed some programs it funds including roads, heritage, sport and recreational facilities, country housing, community safety, cycleways and recycling.<sup>44</sup>

## Restrictions on revenue raising

- 3.60 In Chapter 2, the Committee referred to local government in some circumstances wanting to take on more responsibilities because they believe they are in the best position to do so. In fact, local government is seen as the best partner in delivering certain programs on behalf of the other spheres of government.
- 3.61 However, local government can not take on these additional responsibilities if adequate funding and resources are not provided; without increases in State funding support, local government must rely on its own revenue.
- 3.62 There is a disparity in the ability of councils to raise revenue, due largely to differences between the ability of urban, rural or remote councils to increase rates and levy user charges. Also, there are differences in the cost of providing services.

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42 Guyra Shire Council, Official Hansard, 29 April 2003, Barraba, p. 780.

43 Queensland government, Submission No. 137, p. 1.

44 WA government, Submission No. 298, pp. 4-5.

- 3.63 Local government receives a significant proportion of its revenue from the sale of goods and services. This represents, on average, close to one-third of council revenue, with Tasmania and Queensland receiving more than 40% of their revenue in 2000–01 from these sources. This may be because, in those States, local government has responsibility for provision of water and sewerage services.
- 3.64 Revenue from government grants, at almost 12% of total local government revenue, continues to be a significant source of income to local governments, especially for rural and regional communities. In general, urban councils have the greatest degree of financial autonomy. In some rural and remote areas, government grants can constitute more than 50 per cent of revenue for some councils.<sup>45</sup>
- 3.65 The Committee recognises that rural and remote councils will always rely on grants because they have limited options to increase their own revenue. For example, the Shire of Ngaanyatjarraku has a budget in excess of \$4 million but receives less than \$50 000 in rates, primarily due to large tracts of non rateable land.<sup>46</sup> However, those councils that have the financial autonomy should be able to exercise it and increase revenue within reasonable grounds.
- 3.66 The Queensland government claimed that local government within Queensland has the widest jurisdiction and most flexible powers of any jurisdiction in Australia, therefore, the revenue raising powers of Queensland councils are seen to be wide.<sup>47</sup>
- 3.67 State restrictions on revenue raising include:
- rate capping;
  - constraints on the fees and charges councils are allowed to levy under other legislation (refer to Appendix C for examples);
  - non-payment of rates to councils by a number of State commercial enterprises; and
  - restrictions on borrowings.<sup>48</sup>

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45 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, pp. 12-13.

46 WALGA, Submission No. 310, pp. 8-9.

47 Queensland government, Submission No. 137, p. 2.

48 DOTARS, Submission No. 103, p. 22.

## Rate capping

3.68 Rate capping was introduced by the State government in NSW in 1977. Under this system, councils must seek special approval from the Minister for Local Government for annual increases in rates and charges, or in total revenue, beyond a specified level.

3.69 The rate capping system in NSW exacerbates local government's inability to raise sufficient revenue. Moreover, it has negative implications on local revenue stability and strategic planning. In support of this view, Access Economics referred to the inefficiency of rate capping:

Rate capping ... is inconsistent with the call for local governments to become more financially secure and to develop broader sources of revenue. It also rewards poor management and promotes inefficiency because, if anything, local councils are encouraged to increase rates by the full extent of the allowed limit irrespective of need.<sup>49</sup>

3.70 Indeed, Bombala Council stated councils will take up the rate pegging allowance even if not needed, as they are aware that if they do not take the increase it will be lost forever:

Without a mechanism for recouping the foregone revenue over the longer term a degree of flexibility has been removed. This has a larger impact in the rural areas as rate increases cannot be put through cycles matching the good and poor agricultural seasons.<sup>50</sup>

3.71 The Local Government Association of NSW and Shires Association of NSW (Lgov NSW) agreed that the current system is:

... inefficient and inappropriate as it deprives councils of the ability to respond to the needs of their respective communities and the increasing demands being placed on Local Government by other spheres of government.<sup>51</sup>

3.72 Many councils in NSW argued that rate capping lacks transparency and is vulnerable to the political expedience of the State government of the day. Furthermore, rate capping is seen as an oppressive policy because it does not allow local government to have the responsibility of

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49 Access Economics, *The Case for Increased Funding for Local Government: An assessment prepared for the City of Port Phillip*, February 2003, p. 18.

50 Bombala Council, Response to Questionnaire No. 121, p. 8.

51 Lgov NSW, Submission No. 226, p. 9.

determining its own level of taxation and it affects local government's capacity to serve its constituents. Lgov NSW explained that the approved percentage increases frequently do not match consumer price index increases.

**3.73 The limit for 2002-03 was, for example, set at 3.3% at a time when councils were facing average premium increases for public liability insurance of 30-50%. Further, NSW Fire Brigades increased the levy on councils by 13.3% in the same year.<sup>52</sup>**

3.74 Lgov NSW contested the rate capping policy and pointed out that government instrumentalities, such as the NSW Fire Brigade and Rural Fire Service, commonly increase their levies by amounts that exceed the rate capping limit imposed on councils. Lgov NSW provided the following table which demonstrates the gap between the NSW Fire Brigade Levy and the rate capping limit over the last 10 years.

Table 3.3 NSW Fire Brigade levy increases v Rate Capping Limit

Year	NSWFB Levy Increase %	Rate Capping Limit %
1993/94	Nom	2.6
1994/95	5.9	2.3
1995/96	8.7	2.2
1996/97	10.5	2.7
1997/98	7.5	3.1
1998/99	12.8	1.7
1999/00	2.8	2.4
2000/01	2.7	2.7
2001/02	5.0	2.8
2002/03	13.3	3.3
<b>Average Annual Increase</b>	<b>6.9 %</b>	<b>2.6%</b>

3.75 Rate capping is affecting councils in NSW to such an extent that the increase in the NSW Fire Brigade Levy has surpassed the increases in rates allowed. As an illustration of this, **Eurobodalla Shire Council is paying \$100,000 more in levies to the Fire Brigade and Rural Fire Service while its rates revenues have increased by \$30,000 due to the rate cap.**<sup>53</sup> For other examples of limits imposed by State governments on fees and charges refer to Appendix C.

3.76 Lgov NSW commented on the inequities in this system:

52 Lgov NSW, Submission No. 226, pp. 16-17.

53 Eurobodalla Shire Council, Submission No. 394, p. 5

Councils are not consulted about the NSWFB budget and they have no say in its operations or management but they are legally obliged to meet the increases in the levy. On one hand the Government is approving increases in the NSWFB budget in excess of the CPI while on the other, constraining Local Governments ability to meet the cost of the increases. This inevitably compromises the provision of council infrastructure and services.

Further, as the levy is imposed on councils and not individual property owners, the levy is not readily apparent to the public. The levy is ultimately hidden in council rates with most rate payers unaware that they are funding a State Government agency in addition to their local council.<sup>54</sup>

- 3.77 Further on the rate capping issue, DOTARS referred to a draft discussion paper, *Advancing Local Government, Partnerships for a New Century*, by the UTS Centre for Local Government which argued that there are frequent cases where adequate provision of services and infrastructure cannot be maintained within rate capping limits, even with efficiency gains, due to special local needs, rapid population growth, or other factors.<sup>55</sup>
- 3.78 At hearings, the Committee heard of a number of distortions that rate capping had created in NSW. Due to rate capping, councils are finding it extremely difficult to develop unless their rating base level was appropriate when rate capping was introduced 30 years ago. A number of now rapidly developing councils were caught with a very low rate base at the introduction of rate capping. For example, if Tweed Shire Council was able to rate its properties on the same basis as its adjoining council, Lismore City, it would have an extra \$12 million income on a \$22 million income base.<sup>56</sup>
- 3.79 Similarly, Eurobodalla Shire Council was an underdeveloped fishing village when rate capping commenced so its rating level started at a very low level. Since then, the Council has taken every rate increase but is behind \$1 million in income compared to its neighbouring councils.<sup>57</sup>
- 3.80 ALGA stated that rate capping in NSW could be said to cost local government around an average of \$200 million per annum, assuming

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54 Lgov NSW, Submission No. 226, p. 17.

55 DOTARS, Submission No. 103, p. 22.

56 Tweed Shire Council, Official Hansard, 28 April 2003, Sydney, p. 712.

57 Eurobodalla Shire Council, Official Hansard, 30 April 2003, Moruya, p. 830.

that NSW councils would have increased rates to the same average degree as other States.<sup>58</sup>

- 3.81 The Committee also acknowledges the particular difficulties of local government in NSW due to its limited capacity to raise funds. The CEO of North Sydney elaborated on the difficulties in NSW:

There is less capacity to raise local funds. The expectations from the community are still there but the ability to provide for or meet those expectations with the revenue that local government can raise within the constraints imposed by the state government is quite low. That is not the case in Victoria where the state government has listened to local government's needs and rates have increased. In addition to that there are, in my view, a considerably greater range of state grants to local government in Victoria than there are in New South Wales. I think local government does fare worse in New South Wales than in Victoria.<sup>59</sup>

- 3.82 Another viewpoint was raised by a few councils which claimed that rate capping promotes discipline. The Committee heard that rate capping may be a good way for councils to maintain their rating levels. The Director of Corporate and Community Services, Wyong Shire stated:

... a number of councils have found rate pegging a convenient method to fix the level of rating and then blame it on somebody else.<sup>60</sup>

- 3.83 The point was also made that rate capping has given councils the incentive to review their operation and to be as efficient as they can be.<sup>61</sup> The Mayor of Tumut Shire Council stated that under the rate capping regime, his council has been forced to look at other areas to boost economic activity.<sup>62</sup>

- 3.84 The Committee notes that in many circumstances councils are largely financially self-sufficient; councils on average raise about 80% of the revenue they require, principally from property rates and service fees and charges.<sup>63</sup> At the same time, there may be room for further

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58 ALGA, Correspondence dated 22 July 2003, p. 7.

59 North Sydney Council, Official Hansard, 28 April 2003, Sydney, p. 708.

60 Wyong Shire, Official Hansard, 29 April 2003, Newcastle, p. 799.

61 LGMA NSW, Official Hansard, 28 April 2003, Sydney, p. 705.

62 Tumut Shire Council, Official Hansard, 30 April 2003, Moruya, p. 830.

63 DOTARS, Submission No. 103, p. 18.

increases in local government revenue and the Committee received evidence that some councils had room for further rate increases.

- 3.85 The Committee is of the view that local government should be given responsibility for determining its own level of taxation particularly in the climate of increased expectations and less revenue in the form of grants. After all, local government is subject to the test of rate increases and of management of its fiscal position at the ballot box.

## National Competition Payments

- 3.86 At the 11 April 1995 meeting of the COAG, Federal and State governments agreed to implement a package of legislative and administrative reforms called National Competition Policy (NCP). NCP is a national, coordinated approach to increasing competition in Australia across both business and industry in the public and private sectors.
- 3.87 As part of NCP, the Federal government agreed to provide competition payments to the States. These payments are subject to regular assessments by the National Competition Council (NCC) that the States are achieving satisfactory progress with NCP implementation.
- 3.88 The NCC estimated that in 2001-02, \$733.3 million was provided to the States and Territories in competition payments. These ranged from \$242.5 million to New South Wales to \$7.6 million to the Northern Territory. It was estimated that by 2005-06, a total of \$796.5 million would be provided in competition payments to the States and Territories.<sup>64</sup>
- 3.89 The NCC accepted that there had been circumstances where particular local governments had incurred significant reform costs without necessarily being able to accrue a proportionate share of the benefits. The NCC supported an approach whereby the States and the Northern Territory provide local government with a dedicated share of competition payments.<sup>65</sup>
- 3.90 **NCP agreements were a significant and costly exercise for local government. NCP payments, however, are not being passed on by some States – NSW, TAS, SA and NT - despite local government’s key role in achieving NCP goals and requirements.** Queensland,

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64 National Competition Council, Submission No. 324, p. 4

65 National Competition Council, Submission No. 324, p. 1.

Western Australia and Victoria passed on a portion of their payments to the local sector:

- In Queensland, the State government provided local government with \$150 million in NCP dividends.<sup>66</sup>
- In Victoria, local government received 9% of the State government's allocation over 5 years. The allocation for the next four years is \$65 million.<sup>67</sup>
- Originally WALGA negotiated a deal with the State government for local government to receive \$4 million in NCP payments. The State government discontinued the arrangement after the first three years.<sup>68</sup>

3.91 The Committee is encouraged by the approach of those States which have passed on NCP payments to local government in recognition of its work and associated costs on competition reform. In particular, the large NCC payments passed on by the Queensland State government were extremely useful to local government in that State.<sup>69</sup>

3.92 The Committee notes that some States did not pass on payments. As Lgov NSW stated, a share of payments to local government would have helped compensate for the costs of implementing NCP and could have acted as an incentive for future reforms.<sup>70</sup> The LGAT claimed that the implementation of NCP policies has been quite expensive, yet they have not received any fiscal resources with which to assist in accomplishing this task.<sup>71</sup> Many councils stated that NCP has had a significant impact which was not supported financially. It is expected that local government should enjoy lower costs in the future due to lower input costs as a result of NCP implementation.

3.93 The Committee recognises that NCP payments are only a temporary measure, however a share of the payments would have provided local government with some financial return for the costs of implementing competition reform.

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66 Queensland Government, Submission No. 137, p. 3.

67 MAV, Email message dated 5 May 2003.

68 WALGA, Email message dated 5 May 2003.

69 LGAQ, Official Hansard, 11 March 2003, Tewanin, p. 594.

70 Lgov NSW, Submission No. 226, p. 14.

71 LGAT, Submission No. 279, p. 15.

- 3.94 The Committee believes all Federal-State financial agreements should involve consultation with local government and include financial recognition of the work done by local government.

#### Recommendation 4

- 3.95 **The Committee recommends that, when developing Federal-State inter-governmental agreements, the Federal government consider:**
- **including representation from local government during negotiations; and**
  - **requiring a commitment from State governments to identify and provide a share of payments to local government when it is seen as having a significant role in the delivery of programs under the agreement.**

#### Non-rateable land

- 3.96 DOTARS explained that under the Competitive Neutrality principle of the National Competition Policy, State enterprises should pay all applicable taxes. This is to ensure that public ownership does not derive an advantage in the market place by being exempt from taxes, which are normally paid by competing private sector enterprises. It appears there is no consistency in the way this is applied in States and the Northern Territory.
- 3.97 In the NT, the Government Owned Corporations Act states that a government owned corporation (GOC), such as Power and Water, must pay the equivalent of local government rates to the Consolidated Revenue Account of the NT government. However, this revenue is not passed on to local government.
- 3.98 A similar situation is found in SA and WA where **State enterprises pay the equivalent of local government rates to their respective State treasuries which are not passed on to local government** and therefore represent a loss of revenue from local government's perspective.
- 3.99 These issues are being addressed in NSW and Queensland. In NSW, land is rateable as a result of the corporatisation of a State Owned Corporation that has been specified under the *State Owned Corporations Act 1989*. For example, State enterprises such as the Sydney Water Corporation and energy corporations pay rates. Also in NSW the State government's Reciprocal Charges Committee report recommended a

number of policies and principles that, if adopted in full, would establish a fair and efficient reciprocal charging regime between State and local government in NSW.<sup>72</sup>

- 3.100 In Queensland, a government entity has to pay rates if it is a non-exempt GOC. A number of GOCs in the ports, rail and electricity sectors have been declared recently as non-exempt GOCs and are now paying rates.
- 3.101 In Victoria, properties which are public, educational, religious or charitable in use or ownership, are exempt from council rates in accordance with the *Local Government Act 1989*.<sup>73</sup>
- 3.102 On 29 July 2003 the government of Tasmania and Tasmanian councils signed the Statewide Partnership Agreement on financial reform. The major reforms included:
- the payment by State government of council rates on crown land, apart from certain types of reserves, roads, bridges and Hydro land;
  - the payment by councils of all State government taxes including payroll tax and land tax, with the exception of parks, reserves and conservation areas; and
  - the abolition of up to \$10 million in State government levies on councils.
- 3.103 The reform package was developed over a two year period by a Working Group established by the Premier's Local Government Council. The Working Group, comprising State and local government representatives, undertook close consultation on a range of matters dealing with valuation, rating and revenue neutrality.<sup>74</sup>
- 3.104 Councils in all States and the NT referred to large areas of land which are non-rateable. For example, Katherine Town Council's non-rateable properties added up to \$95 394 per annum and included churches, charities, NT government bodies, crown land and Aboriginal hostels.<sup>75</sup>
- 3.105 WALGA also referred to church groups, indigenous communities and other community groups which seek exemptions from rates. Councils

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72 Lgov NSW, Submission No. 226, p. 13.

73 DOTARS, Submission No. 334, pp. 2-3.

74 Tasmanian Department of Premier and Cabinet, Online: <http://www.dpac.tas.gov.au/divisions/lgo/partnerships/financialreform.html>, Accessed 1 September 2003.

75 Katherine Town Council, Exhibit No. 5, List of non-rateable properties.

in Western Australia have estimated rate exemptions cost between \$50,000 and \$500,000 in lost revenue per annum.<sup>76</sup> LGMA Western Australia referred to Homeswest, a substantial property holder throughout metropolitan and rural areas, transferring responsibility for rental properties to the Community Housing Authority, a body exempt from rates.<sup>77</sup>

- 3.106 The District Council of Elliston in South Australia assessed the annual additional cost and revenue impact on areas subject to Native Vegetation Heritage Agreements was nearly \$50,000 per annum, which is 6.5% of the 1999/2000 rateable income of the council.<sup>78</sup>
- 3.107 Waggamba Shire Council in Queensland faces a similar problem in that its costs \$450,000 per annum to manage stock routes and reserves, yet all revenue from de-pasturage and travelling stock fees goes to the State government.<sup>79</sup> Some councils in Queensland were spending close to 18 per cent of their rate base on stock routes to maintain them for travelling stock that may come from anywhere for no revenue return.<sup>80</sup>
- 3.108 The level of non-rateable land is a factor in the allocation of FAGs to councils in some States. In NSW the State Grants Commission has advised that non-rateable properties are excluded from the Commission's calculations. This is because the calculations deal with relativities between councils, based in part on the theoretical revenue raising capacity of each rateable property. Accordingly, the impact on councils of non-rateable land is taken into account in some states when allocating FAGs.<sup>81</sup>
- 3.109 The Committee would like to see the use of this calculation continued in a new funding methodology for FAGs. Funding is discussed further in Chapter 6.
- 3.110 The Committee is sympathetic to the view that some rate exemptions for charitable and other organisations should be a matter for local government and not other spheres of government.

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76 WALGA, Submission No. 310, p. 10.

77 LGMA WA, Submission No. 320, p. 5.

78 DOTARS, Submission No. 313, p. 2.

79 Waggamba Shire, Submission No. 284, p. 2.

80 Ifracombe Shire Council, Official Hansard, 12 March 2003, Longreach, p. 648.

81 DOTARS, Submission No. 313, p. 2.

## Recommendation 5

3.111 **The Committee recommends that, in line with the Tasmanian Partnership Agreement, Federal and State governments pay rates to local government.**

### Addressing cost shifting

- 3.112 ALGA called for the Committee to recommend that the Federal government implement the following five-point plan to address cost shifting:
- acknowledge cost shifting occurs and that it is a substantial problem;
  - quantify the extent of cost shifting;
  - take measures to ensure public sector revenue is fairly shared across all three spheres of government;
  - develop an inter-governmental agreement to address cost-shifting on specific service provision; and
  - enforce the terms of the inter-governmental agreement through appropriate compliance provisions.<sup>82</sup>
- 3.113 The first two points have been addressed previously in this Chapter. The third point is addressed in detail in Chapter 6 on funding. Issues associated with an IGA are addressed below.

### An IGA

- 3.114 In Chapter 2 the Committee recommended a tripartite IGA to look at roles and responsibilities of each sphere of government in order to address cost shifting.
- 3.115 Throughout the Inquiry, there was wide support for including local government in negotiations to consider the ongoing financial viability of local government in relation to its roles and responsibilities and the need to reduce cost shifting and revenue restrictions imposed on local government.

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<sup>82</sup> ALGA, Submission No. 340, p. 5.

- 3.116 The South Sydney Regional Organisation of Councils (SSROC) recommended that the Federal government work with the States and local government to:
- articulate an agreed vision for local government's future role and place in the federal system;
  - ensure adequate financial assistance for councils and removal of unwarranted financial constraints; and
  - provide political support for councils to implement sound financial management, including increased rates and charges and loan raising where appropriate.<sup>83</sup>

## Local Government Impact Statements

- 3.117 Many councils supported the inclusion of local government impact statements in all new legislation, regulation or policy changes at a State and Territory or Federal level which impact on local government. Councils claimed that these statements would be a step towards addressing the funding requirements of local government to meet costs of implementing legislation.<sup>84</sup>
- 3.118 A submission from six Victorian CEOs stated that any programs administered by local government on behalf of State or Federal governments must be funded on a fully costed basis. They suggested that legislation affecting local governments should not be introduced in the Federal or State Parliaments without the preparation of a Local Government Impact Statement. Moreover, the Victorian CEOs believed the costs of such assessments should be fully borne by the initiating department or agency.<sup>85</sup> LGMA also called for State and Federal government legislation to be subject to local government impact statements.<sup>86</sup>
- 3.119 In 2001, the Local Government (Review of Legislation Proposals) Bill was introduced into the NSW Parliament by an Independent Member. The Bill would have required the government to identify and take account of the potential impact of new legislation on local government.

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83 SSROC, Submission No. 162, pp. ii & 27.

84 For example see: Kilkivan Shire Council, Submission No. 353, p. 1.

85 The Victorian group of CEOs, Submission No. 357, pp. 4 & 6.

86 LGMA, Official Hansard, 27 June 2003, p. 902.

However, the Bill was not supported by the NSW government and opposition.<sup>87</sup>

- 3.120 By contrast, in Japan the Local Finance Law states that each Minister must ask the opinion of the Minister of Public Management, Home Affairs, Posts and Communications before any draft Bill or draft budget, which involves placing responsibility on local governments, is submitted to a cabinet meeting.<sup>88</sup>
- 3.121 The Committee considers this approach to be reasonable. An analysis prepared as part of a Bill would also improve the accountability and transparency of proposed policies.
- 3.122 In summary, the Committee believes an IGA would lead to better use of resources, reduction of waste and duplication and an improvement in the quality of services provided to local communities. Moreover, it would alleviate cost shifting on to local government by identifying the devolution of responsibilities and addressing funding requirements.

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## **Recommendation 6**

- 3.123 **The Committee recommends that the Prime Minister and the Treasurer meet with State and Territory Premiers and Treasurers and local government representatives to develop a Federal-State inter-governmental agreement which:**
- **recognises cost shifting as a problem which has occurred over a number of years;**
  - **allocates revenue to local government from the relevant level of government if responsibilities are devolved;**
  - **addresses State restrictions on local government revenue raising such as rate capping, levies and charges and non-rateable land; and**
  - **develops local government impact statements to identify the financial impact on local government of legislation by State and Commonwealth governments.**

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87 Lgov NSW, Submission No. 226, p. 16.

88 Tsukada, Keisuke, *Japanese/Australian Local Government Relations*, Address to LGMA Qld Conference, 15 October 2002.

## Specific Purpose Payment Agreements

- 3.124 All councils considered that local government should be a party to negotiations and a signatory to all SPP agreements covering functional areas in which it has significant responsibilities.
- 3.125 With many SPPs to the States, it is the responsibility of the States to allocate the funding. Often there are limited tracking or auditing requirements placed on SPPs. A representative of ALGA stated that State Treasuries do not provide detailed figures on the volume of funds going directly to local government:
- The Commonwealth is excellent in its financial reporting of how much money it provides to other spheres of government, whether it be general purpose payments or specific purpose payments. It provides actuals and it provides forward estimates. Yet if you went to the state treasury budget papers, you would not find any similar documentation whatsoever. It is very hard to get a strong, robust picture of the volume of funds going directly to local government.<sup>89</sup>
- 3.126 The Committee notes, however, that the SA and Queensland governments have started to publish in their budget papers a summary of the grants going to local government.<sup>90</sup>
- 3.127 One of the difficulties in tracking the funds is the Australian National Audit Office's (ANAO) lack of power to trace funds beyond payment to the States. The ANAO's mandate is limited to reviewing the activities of Federal agencies. Therefore, the ANAO cannot conduct performance audits of the activities of other levels of government involved in SPP administration. This means that it is up to each Federal department to ensure accountability of parties to agreements. This is a matter for discussion at all IGA negotiations (Recommendation 8).

### Recommendation 7

- 3.128 **The Committee recommends that the Federal government consider extending ANAO's powers to examine the expenditure of Federal Specific Purpose Payments to and through the States to local government.**

89 ALGA, Official Hansard, 27 June 2003, p. 893.

90 ALGA and Mr Woolley, QLD LGGC, Official Hansard, 27 June 2003, pp. 893 and 896.

- 3.129 The ANAO, however, conducted two audits in the 1990s on SPPs to and through the States and Territories. The ANAO found in 1995 that for many programs accountability to the Federal government was poor.<sup>91</sup> Also, the ANAO recommended that formal agreements include program goals, performance indicators, targets and sanctions to facilitate the effective management of SPP programs.<sup>92</sup>
- 3.130 The Joint Committee of Public Accounts (JCPA) agreed with the ANAO and recommended that Federal government departments ensure that new SPP agreements specify measurable performance indicators for each SPP objective. The JCPA stated:
- The Committee believes that cost shifting practices will continue as long as SPP objectives remain unclear and as long as parties to agreements are not assessed on their performance towards meeting objectives.<sup>93</sup>
- 3.131 The JCPA also recommended that all SPP agreements include an explicit statement of the roles and responsibilities of each party to the agreement.<sup>94</sup> The Committee supports the recommendations of the JCPA and believes that the responsibilities of local government should also be specified in all SPP agreements.
- 3.132 The Committee considers it important that the Federal government can be assured that program objectives are being met and funds used as intended. The Committee also believes the Federal government must be more responsible in ensuring its funds are appropriately used by the States.
- 3.133 The Committee notes that Budget Paper No. 3 of 2003-04 indicates that the Federal government is seeking to improve accountability in SPP agreements with the States:
- All new and renegotiated Specific Purpose Payment agreements will include statements of key objectives and the respective responsibilities of the Commonwealth and the States, combined with agreed reporting of financial information and detailed performance indicators.
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91 Auditor-General, *Audit Report No. 21 1994-95: Specific Purpose Payments to and through the States and Territories*, p. xi.

92 Auditor-General, *Audit Report No. 21 1994-95: Specific Purpose Payments to and through the States and Territories*, p. 30.

93 Joint Committee of Public Accounts, *Report 342 – The Administration of Specific Purpose Payments: A Focus on Outcomes*, November 1995, p. 48.

94 Joint Committee on Public Accounts, *Report 342 The Administration of Specific Purpose Payments: A Focus on Outcomes*, November 1995, p. 18.

To encourage increased accountability, an amount appropriate to each Specific Purpose Payment will be contingent on States' timely reporting of the agreed financial and performance information to the satisfaction of the responsible Commonwealth Minister.<sup>95</sup>

- 3.134 Further to these accountability measures, the Committee believes all SPP agreements should require State Treasuries to report on funding provided to local government to perform the responsibilities being devolved onto it under the SPP agreements. This reporting would allow the Federal government to gain a clearer analysis of the extent of cost shifting from a State government to local government in dollars. If cost shifting is occurring to a significant extent, financial penalties to that State could be implemented.

### Recommendation 8

- 3.135 **The Committee recommends that the Minister for Finance issue a direction to all Federal agencies to ensure that all renegotiated and future Federal-State SPP agreements:**
- **describe clear Federal government objectives and measurable outcomes;**
  - **specify performance indicators that are directly linked to the objectives to ensure financial accountability;**
  - **define the roles and responsibilities of each party to the agreement;**
  - **require State governments to report on the volume of funds to be distributed to local government to perform functions; and**
  - **disclose the funding adjustments to be applied to State governments in the case of cost shifting to local government.**

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<sup>95</sup> Budget Paper No. 3, *Federal Financial Relations 2003-04*, p. 19.

## Infrastructure

- 4.1 This Chapter discusses one of the major effects of cost shifting – the declining state of the infrastructure of the nation.
- 4.2 It is clear from Chapter 3 that cost shifting by State governments has been a major cause of the increasing financial concerns of local government and neglect of asset maintenance. Also, State-imposed restrictions on council revenue are burdening local councils particularly in the case of the huge distortions created by rate capping in NSW. This situation is not new and has been building for many years under successive governments.
- 4.3 In many instances the cost of a service is shifted from a State government onto local government without any corresponding transfer of income to provide the service. WALGA claimed that the result of cost shifting on local government finance over many years has put pressures on the ability to maintain and replace assets at appropriate levels.<sup>1</sup>
- 4.4 The Committee recognises that there have been instances of unwise investment in infrastructure in order to meet community preferences which have put a council's future at a financial disadvantage. For example, a council must make decisions on whether to build and maintain up to six swimming pools within easy driving distance from its constituents, or to maintain other essential infrastructure such as roads.

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1 WALGA, Submission No. 310, p. 4.

- 4.5 Elected representatives in local government should be accountable for the longer term consequences of how they spend their money. Councils must manage their public assets adequately for the long term advantage and health of its community and the nation at large.
- 4.6 To overcome additional costs, local government has tended to decrease funding of infrastructure maintenance and replacement. For example, in the year 2001/02, Maroondah City Council diverted \$4.66 million from service programs and infrastructure works to cover the costs of extra responsibilities handed over by the State government.<sup>2</sup>
- 4.7 Also, Stonnington City Council in 1997 had \$22 million available for capital renewal whilst the 2003 amount is budgeted at only \$18 million. According to Stonnington City Council, the reduction of \$4 million could be directly related to this council's estimation of a cost shift of \$4.4 million. In other words, the impact of cost shifting upon Stonnington has been a reduction in new capital works, asset sales and a reduction in services in some non core areas.<sup>3</sup>
- 4.8 Hearings and submissions have revealed that infrastructure has been allowed to run down because local government has had to replace the funds withdrawn by the States, often with little or no notice, on social, health, recreational and cultural programs.
- 4.9 Increasingly, Federal FAGs to local government have been used to fund these services rather than local infrastructure. In the case of Diamantina Shire Council in remote Queensland, all of its FAGs money was used on state government roads by having to match state government funding dollar for dollar, despite the Council having over 1100 km of local government roads to look after.<sup>4</sup>

## **Local government's role in infrastructure**

- 4.10 Local government plans, develops and maintains key infrastructure for its communities. It provides and maintains infrastructure such as local roads, bridges, footpaths, water and sewerage (in Queensland, Tasmania and regional New South Wales), drainage, waste disposal and public buildings.

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2 Maroondah City Council, Submission No. 88, p. 1.

3 Stonnington City Council, Submission No. 238, p. 10

4 Diamantina Shire Council, Official Hansard, 12 March 2003, Longreach, p. 623.

- 4.11 Of the nation's 810,000 km of public roads, almost 640,000 km (80%) are local roads. The Australian Bureau of Statistics estimates that at June 2001, local government owned land and fixed assets worth \$147 billion. Land is worth about \$41 billion and buildings, other construction infrastructure, and plant and equipment are worth \$106 billion. Other construction infrastructure, which includes local roads, are worth \$90.7 billion.<sup>5</sup>
- 4.12 Local government's capacity to fund infrastructure is constrained by its general revenue raising capacity. As the Committee identified in Chapters 2 and 3, a number of factors have contributed to downgrading the maintenance of local infrastructure, including:
- pressure to broaden the range of local government services;
  - unfunded mandates from State and Federal governments; and
  - revenue raising restrictions imposed by State governments.
- 4.13 **There has also been some evidence received pointing to State governments reclassifying roads from their status as State controlled roads to a lesser status, resulting in a lessening of the State government's burden towards the upkeep, maintenance and care of the roads. In other words, costs have been directly transferred to local government.** Examples are in Appendix C.

## The extent of infrastructure needs

- 4.14 The Committee heard that there is a significant infrastructure renewal gap across the country and asset standards are decreasing.
- 4.15 Burnie City Council referred to the infrastructure in many areas as being in a parlous condition and likely to contribute to councils becoming unsustainable.<sup>6</sup> Strathbogie Shire Council stated it would require an increase in rates of 60% to address its infrastructure renewal gap.<sup>7</sup> The Victorian group of CEOs estimated that for the infrastructure maintenance and renewal gap is to be bridged, it would require more than doubling of the current FAGs from \$1.45 billion to \$3 billion.<sup>8</sup>
- 4.16 Research has been carried out in some States on the extent of the infrastructure gap.

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5 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, pp. 62 & 68.

6 Burnie City Council, Submission No. 361, p. 2.

7 Strathbogie Shire Council, Official Hansard, 19 February 2003, Box Hill, p. 547.

8 The Victorian group of CEOs, Submission No. 357, pp. 5-6.

- 4.17 In Victoria, a report of the Victorian Auditor-General in June 2002 found that over the previous five years renewal spending on local roads was deficient by between \$1.4 billion and \$2.75 billion.<sup>9</sup>
- 4.18 In NSW, an analysis of 2001–02 council annual reports by the Department of Local Government showed councils needed to spend \$579 million a year on infrastructure maintenance but are spending only \$423 million a year, leaving an annual shortfall of \$156 million a year.<sup>10</sup>
- 4.19 In SA, an independent study of council infrastructure, *A Wealth of Opportunities*, estimated that South Australian councils are under funding infrastructure renewal by \$95 million per annum.<sup>11</sup>
- 4.20 In WA, councils provide statistical data each year to WALGA for publication in its *Local Government Road Assets and Expenditure Report*. The 2000–01 assets and expenditure report stated that councils should be spending \$293.1 million a year on road preservation, but are spending \$231.8 million, leaving a deficit of \$61.3 million.<sup>12</sup>
- 4.21 Two estimates of the funding needs for local roads identified by DOTARS were:
- ALGA in its submission to the Federal Road Funding Inquiry in 1997 argued that there was a gap between local road needs and local road expenditure by councils of about \$1 billion per annum. However, if Roads to Recovery funding, State direct spending on local roads, and the increase in FAGs for local roads is taken into account, the gap would now be closer to \$490 million per annum; and
  - using a different methodology and more up to date information, DOTARS identified an annual local road deficit of about \$630 million and put the value of local roads at about \$75 billion. The deficit was derived by extrapolating from local road deficits identified in recent State reports in Western Australia, Victoria, New South Wales and South Australia by local road length to estimate a deficit for Australia.<sup>13</sup>

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9 MAV, Submission No. 294, p. 3.

10 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 66.

11 LGASA, Submission No. 223, p. 4.

12 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 67.

13 DOTARS, Submission No. 387, p. 6.

## An infrastructure study

- 4.22 In its discussion paper released in February 2003, the Committee sought responses to the option to conduct a national study into local infrastructure needs and funding. This task would require a commitment to participate on the part of all jurisdictions to ensure the achievement of desired outcomes.
- 4.23 Many respondents to the questionnaire supported this option. For example, the MAV welcomed ‘a realistic and positive contribution from the Federal government addressing national infrastructure needs, including funding programs to address the infrastructure gap.’<sup>14</sup>
- 4.24 However, many councils claimed that while there would be advantage in filling the knowledge gap in infrastructure deficit, the bigger issue is to address funding the problem. Councils claimed that funds for infrastructure maintenance and renewal are required urgently. Also, councils claimed that much of the information is already available in annual reports and other studies. For example, LGASA questioned whether an additional study is required when a national study would not be significantly different in character to those of SA and Victoria where detailed studies have already been conducted.<sup>15</sup>
- 4.25 ALGA referred to a national infrastructure study as being useful but suggested that, rather than another study, a more productive way forward might be to make effective linkages between local government and other specific infrastructure work, through for example, AusLink.<sup>16</sup>
- 4.26 If a national study were to be undertaken, the LGGCs stated that they did not have the expertise or the resources to undertake ‘such an enormous project’. The NSW LGGC considered it more appropriate for government agencies with specific technical and engineering expertise to assess the state of infrastructure.<sup>17</sup> However, the NT LGGC stated it would be amenable to facilitating the specific technical and engineering expertise required for this purpose provided proper roles and guidelines can be developed and funding sources identified.<sup>18</sup>

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14 MAV, Submission No. 384, p. 9.

15 LGASA, Response to Questionnaire No. 120, pp. 5-6.

16 ALGA, Submission No. 352, p. 3.

17 NSW LGGC, Correspondence received 17 July 2003, p. 3.

18 NT LGGC, Correspondence received 18 July 2003, p. 3.

- 4.27 The President of LGAT stated that when considering infrastructure needs in a national study, it is important to remember in some areas, sea or air links are more critical than road and rail links.<sup>19</sup>
- 4.28 Victorian local government has developed the Step Asset Management Program which provides a systemic approach to understanding the range of asset holdings in Victoria and provides an ongoing source of information on managing those assets. The methodology used in the Step Program could form the basis of an audit of the state of the nation's infrastructure.

### **Recommendation 9**

- 4.29 **The Committee recommends that local government bodies be required to audit the state of their infrastructure (using a nationally accepted methodology) and provide status reports to the Commonwealth Grants Commission as one of the inputs into the needs based formula for Federal FAGs to local government.**
- **The infrastructure data collected should be used to adjust FAGs where councils are found to be negligent in managing infrastructure.**

## **Roads funding**

- 4.30 DOTARS estimated that total spending by all levels of government on local roads was about \$3.3 billion per annum.
- 4.31 State direct spending on council roads fell by \$18 million from \$252 million in 1997–98 to \$234 million in 2000–01. Meanwhile Federal spending on local roads under FAGs increased by \$80 million from \$365 million in 1997–98 to \$445 million in 2002–03. In addition, \$1.2 billion was made available to local government for roads over five years to 30 June 2005 under the Roads to Recovery program.<sup>20</sup>

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19 LGAT, Official Hansard, 18 February 2003, Hobart, p. 421.

20 DOTARS, Submission No. 387, p. 5.

## Local Roads grants

- 4.32 The current FAGs Act retains a separate Local Roads pool for the provision of untied local roads funding. The formula used to distribute these grants to the States and Territories is historical. A history of events that have led to the current interstate distribution of local roads grants is at Appendix D.
- 4.33 The Committee received many submissions, particularly from SA, which claimed that their share of the local roads grants component of FAGs was unfair and requested that the Federal government examine the issue of interstate distributions.
- 4.34 SA receives less per head than other States of these grants and a lower per capita and per road length amount than any other State or the NT. The LGASA claimed that the distribution of identified local road grants on a road length or population basis would provide an additional \$24.7 million or \$9.4 million per annum respectively for South Australian councils:
- Significantly, the Commonwealth recognised the inequity in the existing ongoing Identified Local Road Grant allocations when it chose to depart from its traditional Identified Local Road Grants formula in determining the distribution of Roads to Recovery fund between the states and territories. For example SA councils will receive \$100m or 8.3% of this amount over a 4-year period. This is \$34m more than would have been received if the identified Roads Grants formula had been applied.<sup>21</sup>
- 4.35 In comparing the difference in identified local roads funding between two similar councils – Grant District in South Australia and Glenelg Shire in Victoria - a large discrepancy in funding is demonstrated. If Grant District Council received the same roads grant per kilometre as Glenelg Shire (\$703.94), it would have been better off by \$898,012 during 2001-02.<sup>22</sup>
- 4.36 On 30 November 2000, the Deputy Prime Minister and Minister for Transport and Regional Services commented on the interstate distribution of the Local Roads grants in the Second Reading Speech for the Roads to Recovery Bill in the House of Representatives. He said:

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21 LGASA, Submission No. 223, p. 6.

22 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, pp. 139 & 155.

In the Roads to Recovery Program the government has recognised that the historical methodology for allocating funding between States and Territories contains inherent anomalies. Therefore we have rectified this by establishing a fairer allocation based on historical precedents, length of local roads and population.<sup>23</sup>

- 4.37 During its review of the *Local Government (Financial Assistance) Act 1995*, the CGC also received some submissions questioning the appropriateness of the interstate distribution of the Local Roads grants. The CGC found that combining the General Purpose pool and the Local Roads pool would make the process of distributing grants simpler and easier to understand. Also, only one assessment of road needs would be required across the country.<sup>24</sup> The CGC did not take this issue further because it was restricted from considering the interstate distribution of FAGs.
- 4.38 The Committee recognises the disadvantages to South Australian councils under the Local Roads component of FAGs and agrees that the historical formula of the Local Roads component lacks transparency. Also, as the Local Roads component and the General Purpose component are untied, local government can use these grants towards any local priorities, infrastructure or otherwise.
- 4.39 The interstate distribution of FAGs is discussed further in Chapter 6. Also discussed in Chapter 6 is the issue of combining the two FAGs pools.

## Roads to Recovery

- 4.40 The decline in infrastructure renewal placed an increasing focus on revenue from the Federal government to support local government activities. This was recognised by the Federal government in the development of the Roads to Recovery program which has been well received by local governments across Australia.
- 4.41 R2R began in January 2001 and will expire on 30 June 2005. It aims, in particular, to provide councils with the financial capacity to repair roads that are approaching the end of their life. The grants are paid

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23 The Hon. John Anderson, House Hansard, 30 November 2000, p. 23142.

24 Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. 32.

directly to councils and are additional to FAGs. Interstate allocations take into account population, length of road, and historical factors.<sup>25</sup>

4.42 The R2R guidelines urge councils to cooperate to enable larger projects to be implemented on key interregional road links. Councils are also encouraged to work with the States and Territories to ensure a coordinated approach to the development of regional roads.<sup>26</sup>

4.43 The Committee notes that the objective of the AusLink initiative is sustainable economic growth, development and connectivity at the national and regional levels of Australia's land transport network.

4.44 All councils which made submissions and appeared at hearings overwhelmingly supported the long-term retention of the R2R. For example, Dungog Shire stated:

... this program needs to continue indefinitely. The direct linkage between the Federal and Local Governments with this beneficial program has proven highly successful, and there is little doubt that the funding has been correctly and responsibly targeted.<sup>27</sup>

4.45 In its Federal Budget Submission 2003-04, ALGA sought assurance that the R2R program would continue beyond 2004-05.<sup>28</sup>

4.46 LGMA maintained that a significant outcome of the R2R funding model is the requirement for a regional perspective to program development. In comparison to the Local Roads Component of FAGs, the R2R program was preferred as it is simpler to administer and does not involve the States in distribution.<sup>29</sup> Many councils supported the direct funding from the Federal government to local government under R2R:

If the federal government is going to give money I cannot see why it has to go through that state government body, or whether there is a specific reason for it. If we have a set of criteria by which we have spend it, if we have to show how and where we have spent it, I cannot see why we need a second Big Brother looking over our shoulders.<sup>30</sup>

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25 DOTARS, Submission No. 387, p. 7.

26 DOTARS, Submission No. 313, p. 9.

27 Dungog Shire, Submission No. 393, p. 4.

28 ALGA, *Strengthening Australia's Communities: Federal Budget Submission 2003-04*, p. 5.

29 LGMA, Correspondence received 31 July 2003, p. 5.

30 Mulwaree Shire Council, Official Hansard, 30 April 2003, Moruya, p. 835.

- 4.47 Despite the overall support of R2R, the Committee received evidence that R2R funding has led to further cost shifting. This is despite the Prime Minister seeking an assurance from all Premiers and Chief Ministers that they would at least maintain their own expenditure on local roads when R2R was introduced. All States except Western Australia replied giving these assurances.<sup>31</sup>
- 4.48 **WALGA stated that the WA government reduced its annual local government road funding by \$18 million per annum from 2003-04.<sup>32</sup> A number of councils in WA reported that State funding for roads had been reduced or withdrawn following the injection of funds through the Federal government's R2R program.<sup>33</sup>**
- 4.49 The Committee is required under the Inquiry's terms of reference to recommend budget neutral outcomes to the Federal government. However, the Committee considers the continuation of the R2R program funding to be worthwhile because:
- it is designed and tied specifically to the improvement of road infrastructure;
  - it is directly paid to local government;
  - local government supports its distribution methodology; and
  - it further strengthens a partnership between the Federal and local governments.
- 4.50 The Committee considers that, if R2R funding is to be continued, there must be an assurance from each State government that road funding will be maintained at least at pre-R2R levels. If not, the Commonwealth could consider cutting R2R funding by the same amount obliging the State government to reconsider its road funding. This would help to reduce cost shifting by the States on roads.

## Recommendation 10

- 4.51 **The Committee recommends that SPPs directed to local government, such as roads, should be conditional on States not reducing their effort.**

31 Treasury, Correspondence dated 12 August 2003, p. 5.

32 WALGA, Official Hansard, 6 August 2002, Perth, p. 3.

33 Shire of Dalwallinu, Submission No. 359, p. 1; Correspondence from the WA Minister for Planning and Infrastructure to the CEO, Mingenew Shire Council, dated 5 May 2003.

## Funding the infrastructure shortfall

- 4.52 Suggestions received to fund the infrastructure shortfall included:
- increase and tie funding from the Federal government, perhaps as a component of FAGs;
  - local government increasing its own revenue;
  - enhance private sector involvement and investment;
  - allocate 20% of fuel taxes to roads and public transport initiatives to continue the R2R program<sup>34</sup>; and
  - a whole of government approach to funding infrastructure.

## Tying and increasing Federal funding

- 4.53 One possible solution is for the Federal government to tie grants to infrastructure for, say, four years then revert funds to general purpose payments. Alternatively, infrastructure needs could be addressed as the first priority of FAGs until standards are met.
- 4.54 A group of Victorian CEOs suggested that FAGs be paid in two equal parts, the first to infrastructure renewal and the second for other social and community objectives. Under the Victorian CEOs' model, the infrastructure component of FAGs would be distributed between the States on the basis of the value of assets under management, but adjusted for the size of any infrastructure gap and the capacity of a local government to bridge that gap.
- 4.55 In line with this suggestion, Eurobodalla Shire Council called for the tying of at least part of the grant to the upgrade and maintenance of infrastructure.<sup>35</sup>
- 4.56 The Victorian group of CEOs also called for an increase in FAGs to enhance the capacity of local governments and:
- ... enable them to fund essential infrastructure important to national economic capacity while also giving them the ability to enhance local social and community well being within a framework of local choice and priorities.<sup>36</sup>
- 4.57 The NSW LGGC maintained that if capital funding is required it should be paid for by way of specific purpose payments.<sup>37</sup>

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34 LGAQ, Submission No. 363, p. 5.

35 For example: Eurobodalla Shire Council, Submission No. 278, p. 11.

36 The Victorian group of CEOs, Submission No. 357, p. 3.

37 NSW LGGC, Correspondence received 17 July 2003, p. 3.

## Increasing local government revenue

- 4.58 The Committee recognises the limitations on local government finances to maintain its infrastructure. The Committee has identified deficiencies in local government's revenue base relative to its increased roles and responsibilities, of which cost shifting has played a major part.
- 4.59 Despite the financial difficulties of local government, this sphere of government is responsible for maintaining local infrastructure. Local government cannot always look to the Federal government for funding; it must also identify and respond to challenges to increase its own revenue. Measures suggested include:
- reducing expenditure or saying 'no' to other demands on funds dedicated to infrastructure;
  - increased user charges; and
  - increased reliance on borrowing but only where it is responsible to do so.

### Saying 'no'

- 4.60 In Chapter 2 the Committee referred to councils beginning to say 'no' to their communities which are expecting more services. The Committee considers that councils need to refuse to take on extra responsibilities which are shifted from the States without funding.
- 4.61 In some cases this is already happening. The Committee heard in Melbourne that some councils are becoming better at refusing to take on extra responsibilities. For example, Glenelg Shire Council refused a VicRoads proposal for a road safety officer because it did not fit in with the council's plan or budget.<sup>38</sup> Other councils in Victoria are also refusing to raise their HACC service because they believe they are doing enough already.<sup>39</sup> The President of the Local Government Association of the NT stated:

Local government in the Northern Territory is continually at the crossroad of deciding whether or not to perform services on behalf of other spheres of government. In some instances it will be saying that it is going to withdraw from them because it cannot sustain them. This has already happened in a couple of cases.<sup>40</sup>

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38 Glenelg Shire Council, Official Hansard, 19 February 2003, Box Hill, p. 494.

39 Monash City Council, Official Hansard, 19 February 2003, Box Hill, p. 494.

40 LGANT, Official Hansard, 8 October 2002, Darwin, p. 222.

- 4.62 Councils are also stepping back from accepting infrastructure grants that require the council to match funding provided by a State or Federal agency. The Mayor of Bega Valley Shire Council stated:

We basically said as a council, 'It is fine to get the funding for some new infrastructure—a new toilet block or a new boardwalk or whatever—being matched fifty-fifty, but do we really need that or are we better using that \$100,000 or \$200,000, or whatever the matching figure is, to do something that the community really needs, like fixing the roads or upgrading some old timber bridges?' We made a conscious decision to reduce the matching grant funding and use it for only stuff we really need rather than stuff that looks nice and maybe has a nice community feel.<sup>41</sup>

### User charges

- 4.63 While local government is somewhat restricted in its revenue raising capacity, it still has the power to be entrepreneurial in its approach and develop alternative funding sources. For example, some councils subdivide and develop land, operate trading undertakings and enter into commercial enterprises, such as running caravan parks and conducting markets.<sup>42</sup> Also, the City of Ryde wondered whether an infrastructure or tourism tax would be worth considering.<sup>43</sup>

- 4.64 The Committee notes with interest that preliminary investigations into the feasibility of a community bond issue to finance asset maintenance are being carried out by Penrith City Council which stated:

The concept of a community bond as a way of funding this responsibility has the appeal of local communities investing in their own infrastructure.<sup>44</sup>

- 4.65 The SA Centre for Economic Studies reported on the appropriateness and adequacy of South Australian local governments' revenue and evaluated options to increase revenue sources. It concluded that financial support from other spheres of government was declining, however, the local government sector needs to accept responsibility for determining the services and activities it undertakes for its

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41 Bega Valley Shire Council, Official Hansard, 30 April 2003, Moruya, p. 328.

42 WA government, Submission No. 298, p. 4.

43 City of Ryde, Official Hansard, 28 April 2003, Sydney, p. 713.

44 Penrith City Council, Correspondence dated 3 September 2003, p. 1.

communities and ensuring that it raises sufficient revenue to undertake its determined roles.<sup>45</sup>

- 4.66 The Committee also heard the opposing argument that local government has exhausted its capacity to increase user charges. Access Economics claimed that there is already a high level of reliance on user charges by the local sector and that user charges raise equity considerations.<sup>46</sup>
- 4.67 Lgov NSW stated that the restricted taxation base has led to a growing reliance on fees and charges but this recourse is reaching its limitations with user charges being the second largest source of revenue and already representing 27% of local government operating expenditure in NSW.<sup>47</sup>
- 4.68 The MAV also described the plight of the most struggling councils to increase revenue:

... many of these at-serious-risk councils are rural councils with limited population and extensive roads infrastructure. A significant number are characterised by declining populations, relatively low levels of local income and limited or no opportunities to generate dependable revenues from development and discretionary sources such as parking or municipal enterprise. The proximity and structural characteristics of these councils also means that the funding issue cannot be addressed through further municipal restructure.<sup>48</sup>

### Increased borrowing

- 4.69 Borrowing to fund capital spending typically is not a common practice for local governments across Australia. Differences in borrowing levels can be observed between the local sectors in different States. For example, borrowing is more common in Queensland and Tasmania, where local government has broader responsibilities for water and sewerage necessitating higher capital expenditure.
- 4.70 Access Economics maintained that, although borrowing for capital expenditures is a legitimate and economically sound strategy for local
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45 LGASA, Submission No. 223, p. 7.

46 Access Economics, *The Case for Increased Funding for Local Government: An assessment prepared for the City of Port Phillip*, February 2003, p. 19.

47 Lgov NSW, Submission No. 226, p. 7.

48 MAV, Submission No. 294, p. 25.

governments to follow, there may be limited scope for additional net borrowing by the local sector as well as limited revenue raising options from many of its assets. Access Economics concluded that constraints on borrowing might instead lead to a reduction in services in order to keep budgets in balance.<sup>49</sup>

- 4.71 Some councils claimed they had limits on borrowing capacity because much of the infrastructure does not have revenue-generating capacity.<sup>50</sup> WALGA stated that borrowings as a source of funds are limited to capital and other infrastructure improvements and the use of such funds add to the operational financial pressure.<sup>51</sup>
- 4.72 ALGA claimed that much of local government is not capable of generating sufficient revenue returns to service debt. Furthermore, high debt levels are not a sustainable strategy for financing local government service provision.<sup>52</sup>
- 4.73 However, DOTARS suggested that while some councils heavily rely on FAGs, the local government sector as a whole is in a sound financial situation:

In assessing local government's financial capacity, relevant issues are that:

- Local government has maintained its share of revenue from its own sources, despite providing an increasing range of services; and
- Its overall debt levels have declined over recent years.

... Indeed in 2000, for the first time since records commenced in 1993, total cash, deposits and lending exceeded gross debt [1,440 m]. The position was even healthier in 2001 [2,003 m].<sup>53</sup>

- 4.74 Local government's financial position overall is in good shape. Nationally, local government has a net surplus of some \$600 million. However, ALGA stressed that conclusions can not be drawn from an analysis of aggregated data; the surplus is derived from a relatively small number of councils, including Brisbane City Council which accounts for almost 10% of the total surplus.<sup>54</sup>

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49 Access Economics, *The Case for Increased Funding for Local Government: An assessment prepared for the City of Port Phillip*, February 2003, p. 12.

50 City of Port Phillip, Official Hansard, 27 June 2003, p. 881.

51 WALGA, Submission No. 310, pp. 8-9.

52 ALGA, Submission No. 141, p. 24

53 DOTARS, Submission No. 103, p. 30.

54 ALGA, Correspondence dated 22 July 2003, p. 3.

- 4.75 Some councils referred to the pressure to adopt zero debt objectives as part of financial planning. SSROC stated ‘we also need to stop the rhetoric that ‘borrowing is bad, debt free is good’, because that ignores some of the intergenerational equity principles’.<sup>55</sup> The LGAQ believed cautious use of increased borrowing could assist in funding the infrastructure gap.<sup>56</sup>
- 4.76 The Committee considers that judicious use of borrowing may assist local government to meet some of its financial needs if it is accompanied by increased revenues to enable the debt to be serviced.
- 4.77 The Committee believes that local government is accountable for its actions and its financial decisions. It is a legitimate sphere of government and should do more to identify and respond to challenges itself.

## Private sector involvement

- 4.78 Pressure on local government financing has raised the issue of involvement of the private sector in local government infrastructure delivery. In a study commissioned by the National Office of Local Government and the Local Government Ministers’ Conference, SGS Economics & Planning Pty Ltd (SGS) sought to identify how the private sector could most appropriately become involved in local infrastructure, given its management and operating efficiencies.
- 4.79 SGS found that private sector financing of local government infrastructure is very limited. While outsourcing arrangements are common, very few councils have ventured past the stage of leasing stand-alone facilities. The outsourcing arrangements used by local government are traditionally once off contracts for small components of the overall infrastructure network, with council bearing virtually all risks.
- 4.80 It was also acknowledged that the lack of local government capacity is a major stumbling block for private sector infrastructure financing. According to SGS, the major difficulties faced by local councils in involving the private sector in infrastructure provision arise in two separate areas:
- lack of skills on the part of councils in defining contracts and service definition; and

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55 SSROC, Official Hansard, 28 April 2003, Sydney, p. 707.

56 LGAQ, Submission No. 363, p. 4.

- a large proportion of councils, particularly rural and remote councils, face difficulty in attracting private sector interest.<sup>57</sup>
- 4.81 DOTARS concluded from the SGS study that the key challenges for local government in financing infrastructure from the private sector centre on:
- offering the right infrastructure components to the private sector;
  - transferring the appropriate risks to the private sector for the right price;
  - pricing community service obligations if and when necessary; and
  - achieving all of this in a transparent, binding and, if required, a long term contractual arrangement.<sup>58</sup>
- 4.82 The Committee notes that SGS developed guidelines for preparing a *Local Government Infrastructure Financing Manual* to build local government's capacity to engage the private sector in infrastructure delivery.<sup>59</sup>

## Whole of government approach

- 4.83 The major issue confronting all levels of government is the replacement of assets and the maintenance of existing assets and the intergenerational legacy.
- 4.84 The provision of infrastructure is essential when viewed from a whole of government perspective – infrastructure provides for the local, regional, state and national public good. Infrastructure should therefore be a collective responsibility and, as such, be jointly funded by all spheres of government.
- 4.85 The CEO of the City of Stonnington emphasised that if the infrastructure gap is not dealt with on a national level, then national policy will be affected:

The important thing we would emphasise is that helping local government makes good national policy.<sup>60</sup>

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57 SGS Economics & Planning, *Guidelines for a Local Government Infrastructure Financing Manual*, July 2002, p. 30.

58 DOTARS, Submission No. 103, pp. 26-7.

59 SGS Economics & Planning, *Guidelines for a Local Government Infrastructure Financing Manual*, July 2002, pp. 49-52.

60 City of Stonnington, Official Hansard, 27 June 2003, p. 882.

- 4.86 The group of Victorian CEOs maintained that each sphere of government has a responsibility to maintain and enhance infrastructure:
- the Federal government would put emphasis on **nation building** by strengthening the infrastructure base, hence enhancing our ability to represent and compete internationally and achieving social equity through equal access to basic services and infrastructure;
  - the States would focus on **capacity building** and would have responsibility for State infrastructure and assessing infrastructure needs; and
  - local government would concentrate on **community building** by delivering local infrastructure.<sup>61</sup>
- 4.87 In terms of infrastructure funding, the Committee believes a coordinated approach between each level of government will offer the best outcome for the community.
- 4.88 The possibility of a Federal/State/local government partnership is being addressed in the context of AusLink.

### Committee conclusions

- 4.89 The tying of grants is not a popular concept; local government claims it is too diverse, each council having differing priorities on funding. Also, tying Federal grants to infrastructure alleviates the responsibilities of the State and local governments.
- 4.90 Alternatively, if FAGs are left untied, it is up to local government to use the grants in the most efficient manner for its local community. Local government will need to consider options for increasing its own revenue: say 'no' more often to the State governments which are cost shifting, say 'no' to its constituents when demands cannot be met, consider further user charges and the value of increased borrowings, and involve the private sector in infrastructure delivery.
- 4.91 If the Federal government provides untied funds to local government, it must be assured that local government is doing its best to maintain its essential infrastructure.

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61 The Victorian group of CEOs, Submission No. 357, p. 4.

## Capacity building in our regions

- 5.1 The capacity of local governments to meet existing obligations varies greatly, as does the standard to which they can provide local government services. Some of the factors that affect a council's capacity include:
- size and resources;
  - efficiency;
  - adaptability and flexibility;
  - human resources and skills available to local government;
  - responsiveness of elected representatives;
  - the extent to which councils' boundaries reflect contemporary pressures and challenges; and its
  - economic and environmental base.

### Federal and State initiatives

- 5.2 The Development Assessment Forum - a partnership between the Federal, State and Territory governments, local government, the development industry and relevant professional associations - recognised that for cooperative service provision to be successful, good integrated strategic planning is vital.
- 5.3 In its *Good Strategic Planning Guide* (2001), the Development Assessment Forum provided a good overview of the principles that underpin successful planning outcomes and the importance of inter-governmental cooperation to achieve the desired outcomes:
- Good integrated strategic planning is a vital process. It brings together relevant information about an area to address social,

economic, environmental and cultural opportunities that are usually identified by the host community and its stakeholders and expresses a sustainable, practical vision for the area. Strategic planning is a way of achieving a balance between conflicting objectives or priorities and resolving the conflicts between economic, social, environmental and cultural imperatives.<sup>1</sup>

- 5.4 The *Local Government National Report 2001-02* provides a report on measures taken to improve the efficiency and effectiveness of local government to deliver services. Each State and Territory provided reports on activities instituted in support of improving local government performance. All States either have or are developing performance indicators.<sup>2</sup>
- 5.5 Three examples of State initiatives to build the capacity of local government include:
- the Victorian government introduced a 'best value' approach in December 1999 that enables councils to review a service so that they may determine the most effective means of providing that service to the community. All councils are required to apply best value principles to their services by December 2005;
  - in South Australia, all councils were required to develop and adopt strategic management plans by 1 July 2002. The intention was that these plans articulate each council's goals and objectives and their vision for the community. The plans should also complement the State's planning strategy;<sup>3</sup> and
  - the Capacity Building Division of the Western Australian Department of Local Government and Regional Development focuses on offering guidance to the officers and elected members within the local government sector and providing communities with ways of pursuing social and economic progress. It encourages the further take-up of skills, knowledge resources, networking and technology tools in the hands of WA communities and WA local governments. The work covers areas such as leadership building,

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1 Development Assessment Forum, *Good Strategic Planning Guide*, December 2001, p. 8. Online: <http://www.daf.gov.au/reports/DAfStratPlan.pdf>, Accessed 1 September 2003.

2 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, pp. 56-9.

3 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 59.

local government training and development, telecentres and satellite services.<sup>4</sup>

- 5.6 At the Federal level, the National Awards for Local Government acknowledge and foster innovation and excellence in local government. The awards identify and reward local government bodies, associations and other collaborating organisations that are developing and implementing innovative and resourceful practices to improve their business outcomes and help build sustainable Australian communities. The Awards' Leading Practice Seminar Series, also a DOTARS initiative, began in 2000 as a means of providing entrants for the National Awards for Local Government with the opportunity to share their experiences with other councils around Australia. Nearly 200 councils have participated in the seminars.
- 5.7 Also, the Sustainable Regions Programme is the major initiative under the *Stronger Regions, A Stronger Australia Statement* announced by Minister Anderson on 29 August 2001. The Programme is a four year prototype and is operating in eight regions. The Programme assists regional communities to address priority issues they have themselves identified. The strategic plans of local government are integral elements of this process.<sup>5</sup>

## Capacity building agency

- 5.8 Part 2 of option 7 and part 2 of option 3 in the discussion paper issued by the Committee in February 2003, referred to the notion of an agency disseminating best practice information on:
- council revenue raising and innovative approaches to maximising revenue; and
  - cooperative planning and service delivery.
- 5.9 The notion of a local government capacity building agency was generally supported. Such an agency could disseminate best practice in council revenue raising and examine ongoing viability of smaller councils. Local governments, however, were not supportive of using a percentage of FAGs to fund the agency.

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4 WA government, Submission No. 298, p. 9.

5 DOTARS, Submission No. 103, p. 34.

- 5.10 SSROC recommended an organisation along the lines of the UK Improvement and Development Agency (IDeA) and called on the Federal government to reinstate some form of a local government capacity building program.<sup>6</sup>
- 5.11 IDeA has a key role in supporting ‘Beacon’ councils and spreading best practice from the Beacons to others in local government. For instance, IDeA is involved in organising and publicising showcase events and open days.
- 5.12 The UK government established the Beacon Council Scheme in 1999 to foster learning and change in local government through the recognition and sharing of good practice. Each year, Ministers select themes in service areas that have a direct impact on the quality of life of local communities, and an independent advisory panel makes recommendations to Ministers on the themes, selection criteria and the selection of Beacon Councils in each round. In order to be selected as a Beacon Council, they must be able to show:
- excellence in service delivery in the theme area;
  - good general performance, not just in the theme area; and
  - plans for effective dissemination of their good practice to other councils.<sup>7</sup>
- 5.13 The SA government called for a local government ministerial meeting to discuss best practice:
- ... it would be extremely beneficial if the minister could be encouraged to call a ministerial council, because there is a lot of information that could be shared between various state ministers about the role of state government, and some of the best practice that seems to be emerging across the sector nationally could be adopted.<sup>8</sup>
- 5.14 WALGA suggested that best practice recognition and information dissemination is best left to DOTARS, perhaps in conjunction with the Productivity Commission or the CGC.<sup>9</sup> LGAQ also supported best practice dissemination being provided by the National Office of Local Government in DOTARS.<sup>10</sup>
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6 SSROC, Submission No. 162, pp. ii & 27.

7 Online: <http://www.idea.gov.uk/beacons>, Accessed 1 September 2003.

8 SA Minister for Local Government, Official Hansard, 9 October 2003, Adelaide, p. 297.

9 WALGA, Submission No. 365, p. 3.

10 LGAQ, Submission No. 363, p. 5.

- 5.15 However, LGAQ did not support the establishment of a national capacity building agency because local government differs from State to State. Rather, the LGAQ believed a capacity building agency should be developed on a State by State basis.<sup>11</sup>
- 5.16 It has been suggested that best practice approaches are best researched and promoted by local government bodies such as the State Local Government Associations. At the national level however, DOTARS runs best practice awards, sponsored by a number of Federal government departments which do business with local government, and through the LGMA and ALGA annual events promotes the best examples of local government business practice.
- 5.17 The view was put to the Committee that a national capacity building agency could only work if there was total collaboration among the State governments.<sup>12</sup> The Committee agrees there is value in both State and national awards but encourages the collaboration of all Ministers for Local Government to support the practical dissemination of best practice to foster smarter business practices and further stimulate innovative solutions to local problems.
- 5.18 The Local Government and Planning Ministers' Council may be an appropriate forum to consider the potential for a national approach to the further development and dissemination of identified best practice.

### **Recommendation 11**

- 5.19 **The Committee recommends that the Local Government and Planning Ministers' Council establish a body along the lines of the UK IDeA to address capacity building. This body should also oversee the Federal and State governments' best practice awards.**

### **Forum of officers at manager level**

- 5.20 In order to facilitate better communication between the Federal and local levels of government, the Committee believes there should be a point of contact at officer-to-officer level in a Federal department to:
- strengthen inter-governmental relations and networks;
  - direct local government to appropriate contacts in Federal portfolios for assistance;

11 LGAQ, Submission No. 363, p. 6.

12 North Sydney Council, Official Hansard, 28 April 2003, Sydney, p. 747.

- feed local government input into federal policies, program design and management; and
  - disseminate information and inform local government of relevant federal initiatives.
- 5.21 In short, the contact point would make the necessary connections between the two spheres of government in order to facilitate better outcomes for all.
- 5.22 The LGMA claimed that a Federal/Local Government Liaison Unit would be a positive step toward refining and simplifying relations. LGMA, which acts in the interests of local government managers around Australia, supported the strengthening of communication between it and other peak bodies and the Federal government. This could take the form of periodic strategic meetings and discussion of specific policies.<sup>13</sup>
- 5.23 The Cradle Coast Authority in Tasmania suggested that there needs to be a facility where you can find out about services through a directory or a coordinating service:
- For example, small and isolated councils may be bombarded with about 20 different health and community services from several different agencies, half of which are funded by the Commonwealth through the state and do not know that each other exist.<sup>14</sup>
- 5.24 While it would not be possible for a single contact point for all Federal departments to address the detail of all inter-governmental agreements and partnerships, the Liaison Unit could forward queries or feedback on to appropriate Federal agencies, acting as a conduit between the two levels of government.
- 5.25 Periodic meetings between local government managers and Federal agencies could also be arranged by the Liaison Unit on request of either sphere of government as the need arises. This would be particularly helpful in the policy development and program design phases of new initiatives and equally during a review process.

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13 LGMA, Correspondence received 31 July 2003, p. 3.

14 Cradle Coast Authority, Official Hansard, 18 February 2003, Hobart, p. 432.

## Recommendation 12

- 5.26 **The Committee recommends that the Federal government establish a Local Government Liaison Unit to:**
- **liaise with State departments of Local Government and local government peak bodies to strengthen Federal/State/local relations;**
  - **provide the contact point and conduit for local government at the Federal level and provide information on new Federal initiatives, policies and programs;**
  - **receive feedback on the performance of Federal programs and any cost shifting occurrences; and**
  - **coordinate periodic strategic meetings and policy briefings for a Federal and local government officers' forum and other interested parties as required.**

## Performance monitoring

- 5.27 Around the country the Committee has asked witnesses if they would support a form of accreditation for local government. The idea revolves around the acceptance of high performance and accurate accountability being rewarded by less detailed scrutiny. The Committee found that many local government bodies support some form of performance measurement in return for direct funding and a role in the administration of Federal programs – much like is currently occurring with Roads to Recovery.
- 5.28 LGMA supported FAGs payments being aligned to performance outcomes. It suggested that the CGC along with the LGGCs could play a key role in performance assessment. Collation of information on a State basis would provide a valuable national perspective on the performance of local government.
- 5.29 LGMA stated such a plan could only hope to succeed if it had wide support in order to make performance monitoring a positive process with real benefits to participants.<sup>15</sup>

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15 LGMA, Correspondence dated 31 July 2003, p. 2.

- 5.30 While the Committee received general support for such an approach, there were a few caveats put forward including:
- the process needs to be undertaken in a non-political environment with clearly stated objectives, benefits and other implications;
  - accountability in Aboriginal communities could be difficult due to the difficulty in attracting qualified staff;<sup>16</sup>
  - small councils would find the paperwork a burden; and<sup>17</sup>
  - accreditation needs to be context sensitive to ensure that it has regard for the varying circumstances and needs of local authorities of Australia.<sup>18</sup>
- 5.31 A NT council expanded on the point that there is a danger in setting standards across the board because local government areas are different:
- One of the problems with accreditation may be that we all get forced to do the same sort of thing. One of the strengths with local government is that you have 700 councils doing different things and responding to what they see as the needs of their community, not necessarily responding to the views of a public servant in Canberra who happens to have his finger on the key policy button in that particular area. I think that that diversity is actually good for us.<sup>19</sup>
- 5.32 Several councils in Victoria expressed the view that current practices in place of reporting to State government (annual reports, business plans, performance standards and performance indicators) are satisfactory and any more formal accreditation practices would be wasteful and expensive for local government as it would take up more staff time for more paperwork.<sup>20</sup>
- 5.33 The Federal government is not in a position to monitor the effectiveness and efficiency of local government's financial management; this is the role of the States. State Departments of Local Government monitor the financial management of local government

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16 Barunga Manyallaluk Community Government Council, Official Hansard, 7 October 2003, Katherine, p. 182.

17 City of Salisbury, Official Hansard, 9 October 2003, Adelaide, p. 321.

18 LGMA, Correspondence dated 31 July 2003, p. 3; CEO, Glenelg Shire Council, Official Hansard, 19 February 2003, Box Hill, p. 471.

19 Palmerston City Council, Official Hansard, 8 October 2003, Darwin, p. 247.

20 Indigo Shire Council, Official Hansard, 19 February 2003, Box Hill, p. 470.

and report on the performance of councils. The role of a Federal and Local Government Finance Advisory Group in developing a methodology for the distribution of FAGs is discussed further in Chapter 6.

## Structural reform

- 5.34 In the 1990s, the Federal government provided almost \$1.3 million under the Local Government Development Programme to facilitate structural reform in South Australia, New South Wales, Western Australia and Tasmania.<sup>21</sup>
- 5.35 The Committee heard a great deal about structural reform which embraces a number of initiatives including amalgamations, regional cooperation and resource sharing.

## Amalgamations

- 5.36 Between 1991 and 2001, there were state-wide council mergers in South Australia, Victoria and Tasmania, which led to significant reductions in the number of councils.

Table 5.1 Local government numbers 1910-2001

State	Councils 1910	Councils 1991	Percent change 1910–1991	Councils Sept 2001	Percent change 1991–2001
NSW	324	176	–45.7	172	–2.3
Vic	206	210	1.9	79	–62.4
Qld	164	134	–18.3	125	–6.7
WA	147	138	–6.1	142	2.9
SA	175	122	–30.3	68	–44.3
Tas	51	46	–9.8	29	–37.0
NT	n/a	n/a	n/a	36	n/a
<b>Total</b>	<b>1 067</b>	<b>826</b>	<b>–22.6</b>	<b>615<sup>1</sup></b>	<b>–25.5</b>

1. The September 2001 total Council number does not include the 36 NT Councils.

Source DOTARS, Submission No. 387, p. 8.

21 DOTARS, Submission No. 387, p. 8.

## Efficiencies gained by amalgamations

- 5.37 In its submission, DOTARS suggested there are a number of benefits of amalgamations. In general, larger councils have a more secure and adequate financial base, are better able to plan and contribute to economic development, are more effective community advocates, and interact more effectively with government and business. Structural reform can deliver economies of scale and can enable councils to employ a wider range of professionals, so they can offer a wider range and usually higher quality of services.<sup>22</sup>
- 5.38 Voluntary council amalgamations occurred in South Australia in the late 1990s, reducing the number of councils from 122 to 68. The experience in South Australia has been savings of between 3-5% of expenditure (\$19 to \$30 million per annum). The SA government claimed that amalgamations resulted in cost efficiencies and stronger relationships between the State and local government sectors.<sup>23</sup>
- 5.39 The amalgamations of Victorian local governments in 1994 reduced 210 councils to 78. The Victorian Local Governance Association stated that these larger local governments have taken advantage of the opportunities to be more influential in their regions and to take up a broader range of concerns especially the issue of regional economic development.<sup>24</sup>
- 5.40 The geographical areas that are recognised currently as having the potential to undertake major structural reform are:
- Western Australia, eg inner Perth and councils on the sheep/wheatbelt;
  - Queensland, eg councils in a semi-circle west of Brisbane from Warwick to Bundaberg; and
  - New South Wales, eg inner Sydney, the remaining 'doughnut councils' and the Northern Tablelands in a semi-circle from Scone to Glen Innes.<sup>25</sup>
- 5.41 In WA the number of councils has remained virtually unchanged since 1910. There have been five inquiries into local government in WA, each urging for fewer councils. The most recent report in 1996 by the WA government's Structural Reform Advisory Committee
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22 DOTARS, Submission No. 103, p. 51.

23 SA government, Submission No. 266, p. 7.

24 Victorian Local Governance Association, Submission No. 224, p. 3

25 DOTARS, Submission No. 387, p. 9.

- (SRAC) urged major structural reform in the 40% of councils in WA with fewer than 1,500 people. The SRAC identified notional annual savings from this exercise of \$8.5 million to \$21.4 million per annum in rural areas and a further \$15.8 million to \$53 million in urban areas (i.e. up to \$74.4 million in total). The \$74.4 million in savings equates to 5.2% of \$1,437 million that WA local government spent in 2000–01.
- 5.42 However, the Shire of Irwin claimed that parochialism is rife in local government in WA and stifles economic development between adjoining councils. The Shire maintained that local government will continue to be inefficient unless a courageous State government introduces forced amalgamations.<sup>26</sup>
- 5.43 The view of two Queensland Councillors was that savings could be made in Queensland from amalgamations.<sup>27</sup>
- 5.44 There have been a number of moves to increase the number of amalgamations in NSW. An inquiry in 2001 recommended that local governments in Sydney be merged to create four new larger cities, including an enhanced City of Sydney, a mixed residential/industrial city, a beachside-harbourside residential city and an inner west residential gateway city.<sup>28</sup> Savings projections made by councils on individual council mergers in NSW were:
- Armidale-Dumaresq: \$3 million over 20 years;
  - Pristine Waters: \$1.2 million over 10 years;
  - City of Canada Bay: \$17 million over 20 years;
  - Conargo Shire: \$211,000 pa (15% of council revenue); and
  - Richmond Valley Council: \$5 million over 20 years.<sup>29</sup>
- 5.45 Some representatives of local government supported further amalgamations. The Municipal Association of Victoria supported any moves to nationally expedite structural reform.<sup>30</sup>

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26 Shire of Irwin, Submission No. 4, p. 3.

27 Toowoomba City Council and Ipswich City Council, Official Hansard, 11 March 2003, Tewanin, pp. 556, 572, 574 & 576.

28 DOTARS, *Local Government National Report: 2000-01 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 58. (Sproats, K., *Inquiry into local government structure in inner and eastern Sydney*, New South Wales Department of Local Government, April 2001.)

29 DOTARS, Submission No. 387, p. 10

30 MAV, Submission No. 384, p. 8.

- 5.46 LGMA claimed that attempts at structural reform in local government across Australia have not been particularly successful and they would welcome opportunities to examine further amalgamations:

Certainly there are areas where the amalgamation of councils will make them more viable units. The fact that in some communities there are non-viable units is part of the reason why some of the grants being allocated perhaps are not being effectively used at the coalface.<sup>31</sup>

- 5.47 In one Queensland Councillor's opinion, Australia's 721 councils could be reduced by about 80% down to about 150 councils:

If you did that, you would be starting to create super councils around Australia, which would be much more efficient and effective in the delivery of their services. You could then move to the Queensland position of full-time councillors, full-time mayors—people who are representing the community on a full-time basis rather than trying to juggle jobs.<sup>32</sup>

### Why amalgamations may not work

- 5.48 The Committee recognises that small rural councils in Australia's inland face a multitude of challenges including depopulation, a low rate base, deteriorating infrastructure and demand for better services. Merging can bring greater financial strength and stability to these rural councils. However, there are some instances when amalgamations are not viable.
- 5.49 It may be that council amalgamations are not practical for large councils in sparsely settled areas, such as north-western NSW, western Queensland, rural parts of the NT and areas east of the wheat belt in WA. The distances involved in fulfilling council duties generally make such mergers uneconomic. A CEO from a remote Queensland council stated that amalgamations do not always win in a cost benefit analysis because it frequently turns out that 'the tyranny of distance outweighs the economies of scale'.<sup>33</sup>
- 5.50 The Committee acknowledges that amalgamations may not always be the appropriate response to the need for structural reform, particularly for small remote councils who may be separated by vast distances.
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31 LGMA, Official Hansard, 27 June 2003, p. 891.

32 Ipswich City Council, Official Hansard, 11 March 2003, Tewanin, p. 593.

33 Winton Shire Council, Official Hansard, 12 March 2003, Longreach, p. 646.

- 5.51 In these cases a mentoring arrangement with a larger more prosperous council, or membership of a regional organisation of councils may assist in addressing the challenges presented by size and isolation. Advantages of regional cooperation are discussed later in this Chapter.
- 5.52 Also, continued cost shifting by the States does not assist councils in becoming more efficient following amalgamations. Councils in NSW which have been through amalgamations say it works as far as cooperation goes, but did not produce efficiencies in funding or economies of scale. Armidale Dumaresq Council stated that initial cost savings were chewed up in the raft of other imposts by the State government and a substantial drop in the FAGs grant. For such a move to be successful the areas concerned need to have a very strong commonality of interest.<sup>34</sup>

### FAGs after amalgamations

- 5.53 The NSW LGGC stated that with reform comes more effective use of grants:

At the end of the reform program it is likely that councils will be larger and more coherently related to defining economic, social and geographic areas than they are at present. There will, inevitably, be more rationalisation of council operations as a result. The larger and more geographically integrated councils will be better resourced, and will have a greater capacity to develop infrastructure programs as a result.<sup>35</sup>

- 5.54 Also, the NSW LGGC has a principle which states:

... in the event of council amalgamations, the new council will receive grants from two years as if the councils had remained separate entities and any subsequent change may be phased in at the discretion of the Commission.<sup>36</sup>

- 5.55 In Queensland, the LGGC had a similar principle with grants allocated at previous levels for two years, followed by a decrease apportioned equally over the next three years. However, the Queensland LGGC also recognised that one of the aims of amalgamations is to create a more viable unit and grants would most

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34 Armidale Dumaresq Council, Official Hansard, 29 April 2003, Barraba, p. 789.

35 NSW LGGC, Correspondence dated 17 July 2003, p. 8.

36 NSW LGGC, Correspondence dated 17 July 2003, p. 2..

likely eventually go down.<sup>37</sup> One Queensland Councillor claimed that the FAGs grants are a disincentive to amalgamations:

They encourage diversification in small shires. They put the small shires and the small local governments on a drip and they cannot get off.<sup>38</sup>

- 5.56 The South Australian LGGC also guaranteed councils that the grants would remain at their pre-amalgamation level for a year following amalgamation.<sup>39</sup>
- 5.57 In the Northern Territory the LGGC allocation methodology contains a driver (a distribution service delivery index) that rewards councils for providing local government services over a large area. Therefore, this index provides an impetus for the small remote councils to consider amalgamations.<sup>40</sup>
- 5.58 The WA LGGC was of the view that the grant allocation process should neither provide an incentive or a disincentive to structural reform and boundary change in local government. Further, the WA LGGC believed that it would not be unreasonable that a new council receive a reduced grant after a few years, given that it will have more streamlined administration and management.<sup>41</sup>
- 5.59 In contrast to this, the WA government claimed that the *Local Government (Financial Assistance) Act 1995* (the Act) does not assist in providing incentives to boundary changes because grants received by an amalgamated local government are generally less than those previously received by the local governments as separate entities. The WA government suggested that consideration needs to be given to the legislation providing a guarantee as to a particular length of time for which grants to amalgamated councils could be held constant to the total grant level prior to amalgamations.<sup>42</sup>
- 5.60 However, DOTARS reported that the Act neither assist nor deters amalgamations – it is a matter for State policy as to structural reform and then a matter for the LGGCs as to how they distribute FAGs:

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37 QLD LGGC, Official Hansard, 27 June 2003, Canberra, p. 895; QLD LGGC, Correspondence dated 28 July 2003, p. 2.

38 Toowoomba City Council, Official Hansard, 11 March 2003, Tewantin, p. 556.

39 SA LGGC, Correspondence dated 11 August 2003, p. 3.

40 NT LGGC, Correspondence dated 18 July 2003, p. 2.

41 WA LGGC, Correspondence dated 7 August 2003, p. 2.

42 WA government, Submission No. 298, p. 6.

Certainly a reduction in the number of councils enlarges the pool overall, but how that operates and what transitional arrangements are put in place by grants commissions and state governments is really a matter for the judgment that they make in relation to the needs.<sup>43</sup>

- 5.61 The Committee concurs that the current Act does not discourage amalgamations; it is currently up to State governments and the LGGCs to amend the formula for distribution of FAGs. Some States have built into their formulas phased-in changes to grants following amalgamations, while the Northern Territory has built in incentives for amalgamations. The Committee considers, however, that councils making amalgamations should retain savings in the first four years.
- 5.62 It is State governments which are responsible for assessing the viability of local government and determining whether amalgamations would increase efficiencies.
- 5.63 However, adjusting the FAGs distribution methodology, so those councils most in need would receive a larger proportion of money, may compel some States, particularly NSW, WA, and Queensland, to consider amalgamations in certain areas which require efficiencies. A new FAGs distribution formula based on equalisation principles is discussed in Chapter 6.
- 5.64 Also, the Committee considers it would be useful to adjust FAGs, whereby if it can be shown by the CGC and LGGCs that efficiencies could be gained by amalgamations or regional cooperation, then a proportion of FAGs may be withheld from those councils which resist appropriate structural reform. Such action would require advice from the State government and LGGCs. Therefore, if local government is resisting the need for structural reform by way of regional cooperation or amalgamations, FAGs distributions could be adjusted accordingly.
- 5.65 The consideration of an individual council's efficiency would reduce any negative impacts on funding to those councils which have already been through the amalgamation process and made efficiency gains, such as in Victoria. The Federal government would rely on input from the State governments and the LGGCs to determine the level of efficiencies.

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43 DOTARS, Official Hansard, 27 June 2003, Canberra, p. 897.

- 5.66 The Committee considers that in some circumstances amalgamations of local government bodies is the most direct way of achieving a more efficient and cost effective local government sector. If this is the case, further amalgamations should be considered.

### Recommendation 13

- 5.67 **The Committee recommends that the Commonwealth Grants Commission, in consultation with the LGCs in each State, assess the efficiencies of amalgamations or regional cooperation of local government, and use available mechanisms to adjust FAGs grants for the benefit of the sector at large.**
- **To facilitate amalgamations, where appropriate, councils should not be financially penalised through a net loss of FAGs payments for four years.**

## Regional cooperation and resource sharing

- 5.68 On 30 July 2003, the Regional Development Council, comprised of Commonwealth, State and Territory Regional Development Ministers and ALGA, endorsed The Framework for Cooperation on Regional Development. It referred to local government's role in regional development as follows:

Local government participation is vital to the success of regional development initiatives, and local councils, individually or in groups, including regional organisations of councils, have long been at the forefront of such activity. They have allocated large amounts of time, energy and resources to promoting development in their areas and have forged valuable partnerships with other spheres of government, business and community groups. Local government participates actively in intergovernmental approaches to economic, community and environmental development and will continue to foster progress through a range of local and regional activities.

Local government supports the use of multilateral agreements between governments and agencies to improve service planning, funding and delivery and to prevent the

multiplicity of single purpose administrative structures being established for specific functions and programmes.<sup>44</sup>

5.69 As acknowledged in the Framework for Cooperation on Regional Development, all levels of government recognise that local government is an integral partner in building resilient communities. The Federal government is working with local government to build communities through regional planning and development.

5.70 DOTARS commented on the benefits of local government taking a stronger role in regional development and in delivering the Commonwealth's regional policy objectives:

- Local government offers a wide and well-established national network of public administration which may be capable of taking on extra responsibilities and functions. This includes a significant presence in rural and regional Australia. (In some cases local government is the only institutional presence in small rural and remote areas.);
- Local government has strong links to the community and is accountable to the communities it represents. Its legislative basis makes it both durable and financially stable – unlike some community or interest groups;
- Local government has a practical service orientation and good organisational skills which make it capable of innovative, speedy and flexible responses. The integrated structure of councils can allow a high level of co-ordination between different activities;
- The links between local government and local business and industry puts councils in a good position to foster a 'bottom up' approach to regional development;
- Local Government is now playing an increasingly important role in providing information to support Commonwealth regional policy development and as a key stakeholder in the implementation of Commonwealth regional policy initiatives; and
- Extensive contact/transactions between business and local government makes local government an ideal entry point for access to information about other governments' services and programmes and a possible location for delivery of such services.<sup>45</sup>

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44 DOTARS, *Framework for Cooperation on Regional Development*, July 2003, p. 2. Online: <http://www.dotars.gov.au/regional/rdcouncil/rdcframework.aspx>, Accessed 1 September 2003

45 DOTARS, Submission No. 103, p. 39.

- 5.71 DOTARS considered that councils already act effectively at the regional level but there is scope for local government to take a more active role in Federal and State regional development policies and programs. However DOTARS commented that local government would need to be appropriately resourced to do so.<sup>46</sup>
- 5.72 Local government is increasingly recognised as having a pivotal role in the delivery of many national strategies and programs. Local government works with DOTARS on transport and regional policies, and other Federal agencies in areas such as the environment, health and communications. In its submission DOTARS referred to research which highlights the importance of local government's role in regional development. DOTARS also sponsors research and consultancy activities and presents articles in the publication *Sustaining Regions*.<sup>47</sup>
- 5.73 The Committee believes that the Federal government should continue to assist local government to foster regional economic development and to work with councils to reduce business costs and sponsor regional economic development initiatives.
- 5.74 Two examples of State governments providing funding in support of regional cooperation are:
- in 2001 the WA government provided \$75 million over four years under the Regional Investment Fund to assist with the economic and social development of regional WA and improve access by regional communities to services. Regional local governments are eligible to apply for funding for a wide variety of projects;<sup>48</sup> and
  - the NT government set up a Regional Development Fund to provide resources for capacity building and regional development projects. The NT government is facilitating broad community participation in the preparation of Regional Development Plans for each major region in the Territory to address social, economic and environmental issues and to serve as a basis for partnership agreements.<sup>49</sup>

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46 DOTARS, Submission No. 103, p. 40.

47 DOTARS, Submission No. 103, p. 32.

48 WA government, Submission No. 298, p. 4.

49 NT government, Submission No. 358, p. 2.

## Benefits of regional cooperation

- 5.75 Many councils agreed with option 6 of the Committee's February 2003 discussion paper that, when both the State and Federal governments pursue regional initiatives, they should as a general rule work with bodies such as Regional Organisation of Councils (ROCs) or other established arrangements. The Committee notes that for issues like catchment management, ROC boundaries are not always appropriate and other regional boundaries should be considered.
- 5.76 SSROC believed this option would build on the existing strengths and assist to enhance the capacity of local government on a regional basis. Furthermore, SSROC claimed the Federal government can create more opportunities to engage local government in promoting its own agendas.<sup>50</sup> Western Sydney Regional Organisation of Councils supported this view.<sup>51</sup>
- 5.77 LGAT claimed that local government has no other choice but to become involved in regional activities. LGAT maintained that pressures at the individual council level in regard to economies of scale and mobilisation of energy and resources have made it necessary for local governments to combine forces in order to bring about necessary regional outcomes demanded by the population.<sup>52</sup>
- 5.78 LGMA stated that it is worthwhile examining the ability of regional organisations to play a role in the future of local government where they might enable viable service and infrastructure supply.<sup>53</sup>
- 5.79 ALGA strongly supported voluntary regional cooperation with local government being the foundation of regional arrangements, as long as Federal/State/Territory arrangements do not over-ride or compromise local government's roles and responsibilities in local regions.<sup>54</sup>

## Regional cooperation at work

- 5.80 In many cases local government has already developed a regional focus and approach, including through the formation of ROCs. Many

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50 SSROC, Submission No. 162, p. ii.

51 Western Sydney Regional Organisation of Councils, Official Hansard, 28 April 2003, Sydney, p. 751.

52 LGAT, Submission No. 279, p. 21.

53 LGMA, Official Hansard, 27 June 2003, p. 891.

54 ALGA, Submission No. 352, p. 3.

other councils have formed voluntary working groups on particular projects or common interests.

- 5.81 DOTARS referred to a study by the University of New England in 2002 which indicated that there are several positive aspects of ROCs including:
- regional strategic planning - a major output of the ROCs has been the production of comprehensive and sophisticated regional planning documents covering a range of issues (environment, tourism, coastal management, transport). This activity has encouraged coordination and rationalisation of critical areas within related ROCs and resulted in beneficial results for all members;
  - resource sharing/group tendering which has resulted in real financial gains; and
  - the establishment of additional regional bodies designed to promote networking and industry development.<sup>55</sup>
- 5.82 Not all councils can afford, or see it as necessary, to join an established ROC. Rather, they combine with other councils to pursue specific tasks. Indeed, Pristine Waters Shire Council did not consider it necessary to spend \$7500 for membership of the Northern Rivers Regional Organisation of Councils because the other council areas have little in common with them. However, Pristine Waters does work closely with the Clarence Valley Councils on regional water supply and flood mitigation.<sup>56</sup>
- 5.83 In these cases, the Committee agrees with the MAV that undercutting the many regional groupings of councils that have already been established to pursue specific issues must be avoided.<sup>57</sup>
- 5.84 Across Australia there are many examples of asset and service areas where regional coordination and resource sharing are effective in areas such as catchment management, waste management, transport, community support services, and housing services. The Committee received many examples of councils working together on a regional scale successfully. Nine such examples are:

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55 DOTARS, Submission No. 103, p. 38 (Paper by Marshall, N. and Witherby, A. (unpublished) *The Roles and Functions of Regional Organisations of Councils*, presented at Cutting Edge of Change Conference, 14 - 17 February 2002, Centre for Local Government, University of New England, p. 7.)

56 Pristine Waters Shire Council, Official Hansard, 29 April 2003, Newcastle, p. 802.

57 MAV, Submission No. 384, p. 9.

- the Cradle Coast Authority (CCA), which is operationally funded by nine of the north west councils in Tasmania, identifies regional priorities for economic development and brokers partnerships between levels of government, industry and community groups to address them. The CCA has been successful in obtaining \$12 million in funding from the Federal government's Regional Solutions program for the establishment of a blueprint for recovery and development in the region. The CCA also has a partnership agreement with the State government of Tasmania covering a range of issues including major infrastructure projects, industry development, health, education and natural resource management;<sup>58</sup>
- Westpool consists of seven Western Sydney Councils pooling resources to provide public liability/professional indemnity cover to its members. Over a 14 year period the initiative has proven very successful with the pool keeping member costs at a predictable and manageable level providing increased risk management skills amongst members and retaining a financially strong organisation;<sup>59</sup>
- the Riverina Eastern Regional Organisation of Councils is a voluntary association of 15 local government bodies located in the eastern Riverina region of NSW. This organisation has developed a strong culture of working together and pooling funding to deliver both regional and local outcomes. One example of this includes a pooling of purchasing needs in order to achieve economies of scale as well as better purchasing outcomes, which has over the last four years saved members approximately \$3 million;<sup>60</sup>
- the City of Prospect explained that unlike many councils which have amalgamated in recent years in order to obtain economies of scale, it was unable to amalgamate despite a willingness to do so. However the City of Prospect is actively involved in the Metropolitan Eastern Regional partnering arrangements to provide such services as libraries and environmental health;<sup>61</sup>
- the South East Queensland Regional Organisation of Councils (SEQROC) comprises 18 local governments with the Brisbane City Council providing secretariat services. The area comprises 66% of the State population (12% of the national population), generating

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58 Cradle Coast Authority, Submission No. 316, pp. 7 & 28.

59 LGMA NSW, Submission No. 323, p. 6.

60 Riverina Eastern Regional Organisation of Councils, Submission No. 166, p. 6.

61 City of Prospect, Submission No. 98, p. 2.

62% of Gross State Product and 10% of national Gross Domestic Product. Projections show that south east Queensland will absorb 32% of Australia's population growth over the next 35 years. SEQROC is meeting half the costs of the regional planning program SEQ2021 which aims to develop a long-term vision and strategy for a sustainable SEQ and to respond to expected continuing high population growth. The project will be managed in partnership with the State government. The Federal government and peak community sector groups will also be involved;<sup>62</sup>

- four councils in north Tasmania formed a joint authority to build a new landfill to comply with new regulations. This presented significant cost savings to those councils including Devonport Council which estimated savings in the order of \$500,000 per annum;<sup>63</sup>
- the South West Group in Western Australia provides another example of successful pooling of local government resources. This body which is a voluntary regional organisation of councils comprising the cities Melville, Cockburn and Rockingham and the towns of East Fremantle and Kwinana, has provided participating councils with an effective framework to deal with regional issues of importance. The South West Group's formulation of a three-year regional economic development plan enables councils to more appropriately combat regional challenges such as employment and business development;<sup>64</sup>
- in the Katherine East Region, six Aboriginal communities are on the way to forming the Nyirranggulung Mudrulk Ngadberre Regional Authority to provide for a central financial administration and sharing of resources;<sup>65</sup> and
- Nillumbik Shire Council reported that services such as the Yarra Plenty Regional Library comprises three local government areas and the Northern Regional Waste Service comprises six local government areas. These are both legal entities in their own right. Other regional or inter-local governmental connections include tourism, homecare, meals preparation, pound and youth services.<sup>66</sup>

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62 SEQROC, Submission No. 142, p. 1; Brisbane City Council, Submission No. 47, p. 8.

63 Devonport City Council, Official Hansard, 18 February 2003, Hobart, p. 433; Devonport City Council, Submission No. 117, p. 2.

64 South West Group, Submission No. 182, p. 7.

65 Barunga Manyallaluk Community Government Council, Submission No: 295, p. 4.

66 Nillumbik Shire Council, Submission No. 275, p. 12.

- 5.85 It appears regional cooperation is alive and well and comes into play through necessity rather than design. As long as the strengths of regional arrangements are recognised and accessed by other spheres of government there seems little point in imposing regional demands on local government.

### Committee conclusions

- 5.86 The Committee concludes that efficiencies of local government can be improved through a mixture of changes that may include partnerships, regional cooperation and/or amalgamations. One answer does not fit all. Structural reform should continue to provide improvements in the efficiency and effectiveness of the local government sector.
- 5.87 The Federal government is committed to doing business with the level of government which knows the local scene, is competent to conduct business on behalf of both its citizens and the federal government, and will help the Federal government deliver services more economically. Therefore, the Federal government is interested in further development of partnerships with a viable local government sector – councils which are efficient, flexible and outcome-focussed.
- 5.88 The Committee considers that established ROCs and other regional bodies which have demonstrated their capacity to be involved in the regional planning and delivery of Federal and State programs, should be utilised by the Federal government in a partnership approach on national priorities.

### Recommendation 14

- 5.89 **The Committee recommends that the Federal government:**
- **continue to develop partnership arrangements with local government on the delivery of Federal programs and service delivery; and**
  - **as appropriate, engage established regional organisations of councils, or similar regional bodies, which have demonstrated capacity, in regional planning and service delivery.**

## **Commonwealth funding of local government**

- 6.1 The payment of FAGs to local government has played a vital role in the local level of governance in Australia.
- 6.2 The Federal/local government relationship has grown in importance as a result of the increasing focus on local delivery of Federal programs, the need for local government input into the policy and program development of national priorities and the reduced financial support for local government by State governments which has been exacerbated by widespread cost shifting.
- 6.3 It is important to recall the intention of the Local Government Grants Bill when presented to the Federal Parliament in 1974:

The Government's aim is that the Grants Commission should play the same role in reducing local governing authorities' inequalities as it has between the States since 1933. In accordance with the principles of fiscal equalisation which have been developed by the Grants Commission over many years and which have been incorporated in the relevant legislation, the grants are designed to reduce inequalities between local government bodies in the provision of ordinary services.

... However, these funds should in no way be a substitute for revenues normally raised by councils by long established methods such as rates and charges for services, nor should they replace assistance normally provided by State governments.

It is in the nature of the Commission's task that in any year some local authorities will receive lower grants than their neighbouring Councils or Shires, and some authorities will not receive any grants.<sup>1</sup>

#### 6.4 The Opposition offered support to the Bill:

The Opposition supports this legislation- not because it represents an adequate response to the financial problems of local government, but because the funds proposed will be of assistance to those municipal bodies which are at a comparative financial disadvantage.

... The Opposition believes that there is an urgent need to establish an advisory council of inter-governmental relations to examine the problems which arise between the 3 tiers of government in Australia. We also believe that a national inquiry to investigate and report on local government finance should be instigated. Both the inquiry and the on-going advisory council would provide a real basis for action to meet many of the financial difficulties now arising in the area of local government in Australia.<sup>2</sup>

## History of General Purpose Assistance

#### 6.5 The following history of General Purpose Assistance to local government is an extract from a Department of the Parliamentary Library paper Commonwealth General Purpose Financial Assistance to Local Government.<sup>3</sup>

##### Whitlam government

#### 6.6 The Commonwealth first provided general purpose assistance to local government in 1974–75 in line with the Labor Party's policy of providing assistance to local government to promote equality among regions, and to ensure adequate services and the development of resources at local and regional levels. The Grants Commission Act 1973 authorised the Commonwealth Minister to approve the establishment of regional organisations to represent local governments located in the

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1 Special Minister of State, House Hansard, Second Reading, Local Government Grants Bill, 23 October 1974, p. 2746.

2 Member for Flinders, House Hansard, Second Reading, Local Government Grants Bill, 23 October 1974, p. 3570.

3 Department of the Parliamentary Library, *Commonwealth General Purpose Financial Assistance to Local Government*, Research Paper No. 1 2003-04, 11 August 2003, pp 5-10.

region, and laid down procedures for the organisations to apply for financial assistance. The Act further provided for the Commonwealth Grants Commission to inquire into and report on applications. In the event, the Government distributed the grants among local governments in each State in accordance with the Commission's recommendations. In the following two years, the Commission assessed the applications and the Government again accepted the Commission's recommendations.

#### Fraser government: tax sharing arrangements

- 6.7 In 1975, the Liberal-National Country Party coalition adopted the provision of assistance to local government as part of its federalism policy. The arrangements the Whitlam Government had put in place changed with the election of the Fraser Government and its 'new Federalism' policy of sharing personal income tax revenue among the Commonwealth, State and local governments.
- 6.8 Under the provisions of the *Local Government (Personal Income Tax Sharing) Act 1976*, local government received in 1976–77 the equivalent of 1.52% 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 per cent over the following three years. In the event, the proportion was increased to 1.75% in 1979–80 and to 2% in 1980–81.
- 6.9 The method of allocation of grants among the States was changed from full equalisation to a method based partly on per capita grants (the so-called minimum grant) and partly on equalisation. Responsibility for determining the intrastate distribution of grants of the part-equalisation component was passed to the newly-created Local Government Grants Commissions established by the States. The sharing of personal income tax receipts continued through to 1984–85.

#### Hawke government

- 6.10 The Hawke Government dropped these arrangements, arguing that the economy could not afford tax sharing with the States and local government. Instead, the Government increased local government assistance in 1985–86 by the change in the consumer price index and an additional 2% growth factor over the 1984–85 level. The distribution among the States remained the same as that specified in the *Local Government (Personal Income Tax Sharing) Act 1976*.

### Self Report and the 1986 Act

- 6.11 On 10 May 1984, the Government announced the establishment of a Committee of Inquiry into Local Government chaired by Professor Peter Self. The Committee's terms of reference were wide-ranging and included the level and form of Commonwealth funding. The Committee presented its report on 29 October 1985. In April 1986, the Government announced that it had accepted the thrust of the report and that arrangements for the provision of assistance would change from 1986–87 onwards. The new arrangements closely followed the Inquiry's recommendations. Key features of the new arrangements, contained in the *Local Government (Financial Assistance) Act 1986*, were:
- financial assistance grants replaced personal income tax sharing;
  - in 1986–87, grants were to be increased by the greater of either the 1985–86 level of assistance adjusted for inflation (that is, a 'real terms' guarantee) or the percentage change in general purpose payments to the States;
  - for 1987–88, the level of assistance was to be determined by the same means as for 1986–87 but using 1986–87 payments as the base;
  - in following years, the level of assistance to local government would be linked to the level of assistance to the States, whereby the annual level of local government assistance would be determined by increasing the amount paid in the previous year by the percentage change in general purpose payments to the States;
  - the distribution of assistance among the States was to be phased from existing arrangements—which were still partly based on the recommendations of the Commonwealth Grants Commission made in 1977—to an equal per capita basis by 1989–90 ;
  - the State Grants Commissions were to determine the intrastate distribution of grants according to principles, formulated by each State, that took fiscal equalisation into account;
  - all local governments would be entitled to a minimum grant based on population; and
  - provision was made for informal local government bodies, such as Aboriginal communities in remote areas, to receive grants.
- 6.12 Local government benefited from the 'real terms' guarantee in 1986–87 and 1987–88 because grants to the States fell in real terms in those years, but suffered cuts in real terms in 1988–89, 1989–90 and 1990–91 when real State general purpose funding fell.

- 6.13 The interstate distribution of local government assistance in 1988–89 reflected the transition to equal per capita grants. In 1989–90, grants were distributed on an equal per capita basis.

#### Commonwealth Grants Commission 1991 Report on the Interstate Distribution of Grants

- 6.14 Despite the decision to allocate grants on an equal per capita basis, the 1989 Premiers' Conference agreed that the Commonwealth Grants Commission should report on the interstate distribution of general purpose grants to local government. The Commission's two main tasks were to comment on the desirability of adopting full fiscal equalisation (as distinct from the part-equalisation under the Fraser Government noted above) and to calculate what the distribution of grants would be if full fiscal equalisation were adopted.

- 6.15 The Commission's report was released in March 1991. The Commission supported, in principle, the adoption of fiscal equalisation:

In principle, we believe it would not be appropriate to continue indefinitely an interstate distribution of general purpose assistance for local government on a basis (equal per capita) which departs so markedly from fiscal equalisation.<sup>4</sup>

- 6.16 However, the Commission recommended against using the per capita relativities that it had assessed for allocating assistance for local government among the States in 1991–92 because of data and methodology deficiencies.

- 6.17 The Premiers' Conference of 31 May 1991 considered the Commission's report. Given the Commission's concerns, the Commonwealth announced in May 1992 that grants would continue to be distributed on an equal per capita basis. Hence financial assistance grants have continued to be distributed on this basis since 1989–90.

#### Untying of local road funds and Identified Roads Grants

- 6.18 Until 1990–91, the Commonwealth provided specific purpose grants to local government for local roads under the *Australian Land Transport Development Act 1988*. The October 1990 Special Premiers' Conference agreed that road funds would be untied with effect from 1 July 1991, that is, the conditions applying to road grants would be abolished and local governments could spend the funds for any purpose. The untied grants are called identified road grants.

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4 Commonwealth Grants Commission, *Report on the Interstate Distribution of General Purpose Grants for Local Government 1991*, AGPS, 1991, p. xxv.

- 6.19 In June 1991, the *Local Government (Financial Assistance) Act 1986* was amended to allow road funding to be added to financial assistance grants from 1995–96 and hence distributed on a per capita basis. This this would have been to the detriment of Western Australia, Tasmania, the ACT, the Northern Territory and Queensland. The 1995 Premiers' Conference therefore decided that local road funds would continue to be distributed on the basis of the criteria in the *Australian Land Transport Development Act 1988*. The effect of this decision has been to freeze the interstate distribution of identified road grants at the historical shares that applied in 1991–92 when grants were untied.

#### Review of the 1986 Act

- 6.20 In June 1993, local government Ministers agreed to a review of funding arrangements to ensure an efficient and effective use of resources under the *Local Government (Financial Assistance) Act 1986* given the level of funding and distribution of funds among the States. The Australian Urban and Regional Development Review undertook the study. The review's findings included:
- there had been a shift in the share of funding to rural councils in all States (except Victoria) and the Northern Territory;
  - State Grants Commissions were following two models of fiscal equalisation: in one, an increasing share of funds was allocated to local governments with increasing populations whereas in the other model, the reverse was true;
  - in most States, an increasing share of assistance went to local governments with the greatest socio-economic disadvantage;
  - the need for a uniform national reporting framework was urgent;
  - absorbing local road funding into financial assistance grants and hence distributing road funding on an equal per capita basis would be disruptive and was not recommended; and
  - additional measures to encourage efficiency in local government should be implemented.

#### Local Government (Financial Assistance) Act 1995

- 6.21 Following consideration of the review and consultations with State and local governments, the Commonwealth undertook further reforms, which were contained in the *Local Government (Financial Assistance) Act 1995*. This Act retained most of the features of the 1986 Act. The main change was the requirement that national principles replace the arrangements whereby each State formulated principles. The main objective of the national principles (see Box) was to establish a more

nationally consistent and transparent basis for the way State Grants Commissions determine the intrastate allocation of funds.

#### **National Principles Relating to the Allocation of Grants**

1. The national principles relating to the allocation of general purpose grants are:

(i) **Horizontal equalisation.** General purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This is a basis that ensures that each local governing body in the State/Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State/Territory. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.

(ii) **Effort neutrality.** An effort or policy neutral approach will be used in assessing the expenditure requirements and revenue-raising capacity of each governing body. This means as far as practicable, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determination.

(iii) **Minimum grant.** The minimum general purpose grant allocation for a local governing body in a year will be not less than the amount to which the local governing body would be entitled if 30 per cent of the total amount of general purpose grants to which the State/Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State/Territory on a per capita basis.

(iv) **Other grant support.** Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.

(v) **Aboriginal peoples and Torres Strait Islanders.** Financial assistance shall be allocated to councils in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

2. The national principle relating to the allocation of the identified road component of the general purpose grants is:

**Identified road component.** The grants should be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets. In assessing road needs, relevant considerations include length, type and usage of roads in each local governing area.

6.22 Other changes to the 1986 Act included:

- recognition of the need for local government to be efficient and effective;
- recognition of the need to improve the provision of services to Aboriginal and Torres Strait Islander communities;
- the requirement that the Commonwealth Minister with portfolio responsibility for administering Commonwealth financial assistance to local government, report annually to Parliament on the operation of the 1995 Act; and
- the requirement that a review of the 1995 Act be carried out by 30 June 2001.

6.23 The 25 March 1994 Premiers' Conference decided that financial assistance grants paid to the States would be maintained in real per capita terms over the next three years. This decision affected local government grants because the 1995 Act provided for local government general purpose assistance to be increased annually by an escalation factor that reflected the underlying movement in general revenue assistance paid to the States. The escalation factor for State grants reflected indexation for population growth and the consumer price index. The consequence of the Conference decision was to maintain the level of grants in real per capita terms and thereby place a 'floor' under the value of assistance.

### A New Tax System

- 6.24 As part of *A New Tax System* (ANTS), the Howard Government proposed that the States assume responsibility for providing financial assistance grants to local government from 1 July 2000. Payments were to be made under the terms of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, which heads of government signed at the 1999 Premiers' Conference. But under the agreement between the Government and the Australian Democrats to modify the goods and services tax (GST) and implement a package of other proposals, the Government agreed to retain responsibility for assisting local government.
- 6.25 The Howard Government's decision to replace financial assistance grants—and revenue replacement payments—to the States with revenue from the GST from 1 July 2000 severed the link between grants to the States and grants to local government established in the 1986 Act. The Government therefore introduced the *Local Government (Financial Assistance) Amendment Act 2000*. The main purpose of this Act was to maintain the level of assistance to local government in real per capita terms. Thus since 2000–01, the increase in general purpose assistance

has been based on an escalation factor based on population growth and the increase in the consumer price index but excluding the estimated effect of the tax reform measures in *The New Tax System*.

- 6.26 Local governments can claim input tax credits for the GST. It seems likely that local government, overall, obtained savings from the implementation of the GST.

## Current Issues relating to financial assistance grants

- 6.27 In June 2001 the CGC published its Review of The Operation of the *Local Government (Financial Assistance) Act 1995*. The findings of the Review are at Appendix E.
- 6.28 An explanation of the current operation of the FAGs is at Appendix F.
- 6.29 In its submission to this Inquiry, DOTARS highlighted the issues raised following the release of the CGC Review:
- the **interstate distribution** of the general purpose and local roads pools and the proposal to use relative need **using equalisation principles in place of horizontal equalisation**;
  - the **quantum of the funds**;
  - the proposal to retain the **minimum grant** provision;
  - the impact on grants to councils of the proposal to split the general purpose funding pool into a **Per Capita pool and a Relative Needs pool**; and
  - the proposal to **remove the purpose of 'improving the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities'**.<sup>5</sup>
- 6.30 While these issues remain to be addressed, since the Review the increasing community expectations and demands on local government, the extent of cost shifting and the pressure of the infrastructure backlog have focussed further attention on the issues below:
- the need for **certainty of funding**;
  - the need for a **growth base** for FAGs;
  - the need to leave **FAGs untied**;

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5 DOTARS, Submission No. 103, p. 59.

- the performance of **Local Government Grants Commissions**;
- the **direct payment of FAGs** to local government; and
- the need for a **new approach to funding local government**.

6.31 The Committee has addressed each of the issues raised in the DOTARS submission and paragraph 6.30 above and they will form the structure of this chapter and the recommendations relating to funding.

## Interstate distribution and equalisation principles

6.32 In the early 1990s, the CGC was asked to review the interstate distribution of FAGs in time for consideration at the 1991 Premiers' Conference. The CGC prepared two sets of relativities. Both implied a large redistribution of funds away from NSW and Victoria towards the less populous States. The CGC did not recommend that either set of relativities be adopted. The relativities were subject to important reservations about the appropriateness of the methodology being used and the quality and availability of relevant data and highlighted the complexities of moving from a per capita basis to a horizontal equalisation distribution.

6.33 DOTARS stated:

The CGC believed that suitable relativities could be determined provided there were improvements in data sources and refinements in methodology. However, it advised of issues that governments would need to take into account to change from the per capita distribution. These were:

- (i) The per capita distribution is simple and predictable;
- (ii) The costs for the States and the Commonwealth to change to an equalisation system relative to the size of the pool; and
- (iii) A move to an equalisation basis would be disruptive to councils in New South Wales and Victoria.

The current requirement in the 1995 Act for the distribution of grants within States being, as far as is practicable, on a horizontal equalisation basis aims to bring all councils in that State up to the same fiscal level. However, the actual effect of distributing general purpose grants between States on a per capita basis means councils in different States may be brought up to different fiscal levels. The distribution of general purpose grants on an equal per capita basis does not recognise the differences between local government sectors in their States in their capacity to raise revenue and their expenditure needs.

This deficiency is most likely to occur in the Northern Territory where there is a very low population density, a relatively long length of road per capita, a relatively high proportion of people in remote areas and a substantial population living in community councils that need high levels of financial support. For instance, in 2001–02 the NT with 196,000 people received \$9.7 million in general purpose grants. However, Greater Geelong, in Victoria, with 188,000 people received \$10.8 million and Wollongong, in New South Wales, with 186,000 people received \$9.5 million.

As detailed, the distribution of grants between States on a per capita basis, rather than horizontal equalisation, evolved as a result of difficulties in determining the latter.<sup>6</sup>

- 6.34 The interstate distribution of the general purpose and local roads pools has been a contentious issue which has proved very difficult to resolve. The CGC's Report on the Interstate Distribution of Grants released in March 1991 supported, in principle, the adoption of fiscal equalisation:

In principle, we believe it would not be appropriate to continue indefinitely an interstate distribution of general purpose assistance for local government on a basis (equal per capita) which departs so markedly from fiscal equalisation.<sup>7</sup>

- 6.35 However, as DOTARS noted, there is no agreed methodology for determining 'need' across States<sup>8</sup> and the Commonwealth has not acted unilaterally to change the distribution.

#### Local government views on the interstate distribution of FAGs

- 6.36 The LGASA estimated that its general purpose grants based on population rather than need is costing South Australian councils in the order of \$20 million to \$30 million per annum.<sup>9</sup>

- 6.37 The SA LGGC called for a rethink on the interstate distribution:

We are suggesting it is time that the way it is done currently is reviewed—a substantial review of the way that allocation happens at the moment. There is no representation of need in

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6 DOTARS, Submission No. 103, pp. 60-1.

7 Commonwealth Grants Commission, *Report on the Interstate Distribution of General Purpose Grants for Local Government 1991*, AGPS, 1991 p. xxii.

8 DOTARS, Submission No. 334, p. 9.

9 LGASA, Submission No. 223, p. 6.

the general purpose allocation and nobody can understand what the roads proportions represent.<sup>10</sup>

6.38 The SA government also called for the relative cost disadvantages in SA and disadvantages in revenue raising capacity to be fully addressed through the adoption of horizontal equalisation methodologies.<sup>11</sup> In its supplementary submission, the SA government claimed that the states with smaller populations are disadvantaged by the current national methodology of distribution. The SA government believes that the allocation to SA on a per capita basis in the case of the general purpose grants and on a historical basis in terms of the local road grants is inequitable.<sup>12</sup>

6.39 The Northern Territory Department of Local Government and Regional Development stated that its highest priority issue to bring before the Committee's Inquiry was the need for greater equity in the distribution of FAGs:

Changes to the interstate distribution to redress current anomalies and the reduction of the minimum grant to provide additional funding to needy councils are policy shifts which would be welcomed in the Northern Territory. The disadvantages faced by rural and remote councils in their revenue raising capacity and in the delivery of cost effective services are significant and widely documented.<sup>13</sup>

6.40 The NT Grants Commission also believed that the NT is disadvantaged by the current methodology of interstate distribution.

6.41 The Tasmanian government did not provide a submission to the Inquiry but the Local Government Association of Tasmania commented:

Because the Commonwealth's financial assistance grants for local government are allocated to states on a per capita basis, Tasmania is likely to be heavily disadvantaged due to its falling population. Indeed LGAT believes that this change in demographics will have substantial impact on not only this source of revenue for Tasmanian Local Government (FAGs) but will also cause a significant erosion of the individual rateable income base for local government.<sup>14</sup>

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10 SA LGGC, Official Hansard, 27 June 2003, Canberra, p. 863.

11 SA Government, Submission No. 266, p. 1.

12 South Australian Government, Submission No. 385, p. 5.

13 Northern Territory Government, Submission No. 358, p. 1.

14 LGAT, Submission No. 279, p. 9.

- 6.42 The Victorian and Western Australian governments supported the findings of the CGC Review and urged the Federal government to implement those findings.<sup>15</sup>
- 6.43 The Shire of Gnowangerup in Western Australia stated:
- ...per capita funding in a place like Australia really does not work. It would be great to have our population in a little place the size of Peppermint Grove, where you could walk around it.<sup>16</sup>
- 6.44 The Urban Local Government Association of Queensland Inc (ULGAQ) argued that Queensland local government is also disadvantaged by the current per capita distribution system due to it having more extensive functions and responsibilities than their counterparts in other States:
- The per capita distribution does not recognise either the more extensive nature of Queensland local government's role, nor this State's more dispersed population and decentralised nature particularly compared to New South Wales and Victoria. In other words disability in cost of service provision or revenue raising ability is ignored in the current formula. ...The redistribution need is far greater in Queensland, because of its size, population distribution, cost of services and revenue raising disabilities. Yet, the interstate distribution does not in any way account for this.<sup>17</sup>
- 6.45 The Queensland government considered that the interstate distribution should be based on the principles of fiscal equalisation.<sup>18</sup>
- 6.46 The NSW government did not provide a submission to the Inquiry. The Local Government Associations in NSW expressed strong opposition to changes in the interstate distribution of FAGs.

### Interstate distribution of GST payments

- 6.47 In distribution of the GST payments to the States, Horizontal Fiscal Equalisation (HFE) is taken into account:

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15 Department of Local Government and Regional Development Western Australia Submission No. 298, p. 8; Victorian Minister for Local Government Submission No. 176 p. 3.

16 Shire of Gnowangerup, Official Hansard, Perth, 6 August 2002, p. 25.

17 ULGAQ, Submission No. 299, pp. 3-4.

18 Email dated 8 August 2003.

NSW, Victoria and Western Australia receive less than equal per capita shares under the Horizontal Fiscal Equalisation (HFE) arrangements because the Commission has assessed their fiscal capacity to be relatively strong. For example, the Commission assessed that NSW has a relatively stronger capacity to raise revenue from land tax and stamp duty on property transfers; Victoria has a relatively lower cost of providing state government services; and WA has a relatively strong capacity to raise revenue from mining activities. The remaining States receive more than an equal per capita share of funding because the Commission has assessed their fiscal capacity to be lower and/or their costs of service delivery to be higher.<sup>19</sup>

- 6.48 The Committee noted that while it may require a more complex methodology to apply HFE principles to 721 councils than it does for six States and two Territories, it is only appropriate that, if State differences are taken into account and HFE principles are applied in the distribution of GST payments, then local government differences and HFE principles should also be applied to the distribution of FAGs.
- 6.49 The Committee concluded that FAGs should be distributed on the basis of equalisation principles and not on a per capita basis. (Recommendation 16)

### The quantum of funds

- 6.50 In 2002–03, the Federal government provided \$1.455 billion nationally – the equivalent of \$74.51 per capita – in financial assistance to local government. The total estimated entitlement for 2003–04 is \$1.509 billion.
- 6.51 As the quantum of FAGs is below that needed to apply full horizontal equalisation principles, the CGC recommended the use of equalisation principles. According to DOTARS:
- For full horizontal equalisation to be fully achieved, the minimum grant requirement would have to be removed and some higher capacity councils would have to receive negative grants (that is, they would have to contribute funds to the grants pool rather than receive them).

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19 *Federal Financial Relations 2002-04*, Budget Paper No. 3, p. 11.

This means that in all States, because some councils in each State are on minimum grants, as provided for in the Act, horizontal equalisation cannot be achieved.

It is for that reason that the Commonwealth Grants Commission proposed the concept of relative needs using equalisation principles to describe the objective (that councils with relatively greater need receive a relatively greater share of the funding) and the allocation process.<sup>20</sup>

6.52 This Inquiry was conducted on the basis that the outcomes would be budget neutral for the Commonwealth. However, the quantum of funds and the need for certainty of funding on a growth base are issues that were raised constantly in both submissions and at hearings.

6.53 Both councils and peak bodies argued that there is a need for a fixed share of Federal revenues supported by a growth tax. The ALGA submission said:

The lack of an appropriate methodology to share the nation's public sector revenues in an equitable manner is the most significant problem faced by local government in Australia.

...Successive Commonwealth governments have failed to adequately address this issue.<sup>21</sup>

6.54 Another significant complaint made about the current arrangements concerned the escalation factor:

Tax sharing grants should grow at the same rate as Commonwealth estimates and projections for Commonwealth taxes (exclusive of GST) and GST revenues (collected by the Commonwealth on behalf of and paid to the States), not less quickly as in the case of FAGs to local government.<sup>22</sup>

Last year, GST revenues grew by 7.1%, but FAGs by only 4.4%. Over the next two years, GST revenue is projected to grow by around 5.5% per annum. Moreover, the 'real' increase in FAGs is limited to the CPI less an adjustment for recent changes to indirect taxation – a figure well below the cost increases faced by local government.<sup>23</sup>

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20 DOTARS, Submission No. 313, p. 14.

21 ALGA, Submission No. 340, p. 7.

22 The Victorian group of CEOs, Submission No. 357, p. 12.

23 South Sydney Regional Organisation of Councils, Submission No. 162, p. 15.

6.55 One proposal put forward by a Victorian group of Chief Executive Officers suggested that FAGs:

- be 'tied to 1.3% of total Commonwealth taxes';
- be funded from an allocation from the expected GST windfall payment to the States plus other sources; and
- be deducted from the States' GST allocation by the Commonwealth.<sup>24</sup>

6.56 However, ALGA suggested linking FAGs to Commonwealth taxation using a methodology which sets total FAGs to local government at an equivalent of 5% of the GST revenue that flows to the States and Territories.<sup>25</sup> ALGA also provided the following table to demonstrate the effect of its proposal:<sup>26</sup>

Table 6.1 FAGs grants at 5% equivalent of GST

	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
GST as at May 2003	32,050.0	33,815.0	35,860.0	37,690.0
Equivalent of 5% of GST	1,602.5	1,690.8	1,793.0	1,884.5
Current FAGS	1,505.4	1,561.9	1,618.3	1,676.7
Difference	97.1	128.8	174.7	207.8

6.57 City of Port Phillip commissioned Access Economics to prepare a paper entitled *The Case for Increased Funding to Local Government*. The paper shows that between 1983-84 and 2000-01, Commonwealth tax collections increased by 74% while grants to the States increased by 21% and to local government by 5% in real terms.

6.58 The paper further noted that FAGs (and any inadequacy in their levels) are not the cause of Vertical Fiscal Imbalance (VFI). VFI is caused by the uneven distribution of taxing powers and expenditure functions. FAGs merely serve to offset – not reduce – VFI. As such, FAGs are a symptom of VFI. Only an evening up of the local sector's tax powers and expenditure responsibilities would reduce that sector's VFI problems.<sup>27</sup>

24 The Victorian group of CEOs, Response to the Discussion Paper, Submission No. 357 p. 2.

25 ALGA, Submission No. 340, p. 7.

26 ALGA, Email dated 9 July 2003.

27 Access Economics, *The Case for Increased Funding for Local Government, An assessment prepared for the city of Port Phillip*, February 2003, pp. 25-26.

- 6.59 Aware of the requirement that the recommendations of the Inquiry be budget neutral, the paper also considered ways for local government to consolidate further its financial position.
- 6.60 The main alternatives to increased FAGs identified in the Access Economics paper are:
- the local sector cuts back its expenditure on unfunded mandates imposed by higher levels of government;
  - the Federal government facilitate changes to State policies on exemptions, concessions, rate capping and the like; and
  - the State and Federal governments allow an increase in local government revenue, initially by allocating 'tax on tax' associated with the GST to the local government sector and, over time, by amending the relevant inter-governmental agreement to eliminate such tax effects, making room for an offsetting increase in local government rates on residential property.<sup>28</sup>
- 6.61 Following a meeting of the Local Government and Planning Ministers' Council in July 2003, the President of MAV was quoted as saying:
- Unless we see a reappraisal of the current tax base of local governments, councils will need to continue to go out to ratepayers cap in hand on an annual basis.
- ... The MAV would investigate several options, including a suggestion that part of the State Government's GST funds be set aside for councils.<sup>29</sup>
- 6.62 Access Economics argued for a correction of an anomaly in the New Tax System which further disadvantages local government:
- One option for sharing revenue would be to amend the Intergovernmental Agreement (IGA) to correct an anomaly in the way the *New Tax System* operates.
- Specifically, the original IGA always envisaged that the interaction between remaining State taxes and the GST would eliminate 'tax on tax' problems. Following the deal between the Commonwealth Government and the Democrats, the application of the GST has seen this principle violated in two ways:

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28 Access Economics, *The Case for Increased Funding for Local Government, An assessment prepared for the city of Port Phillip*, February 2003, p. i.

29 Northcote Leader, 'Councils seek overhaul of current taxes', 16 July 2003, p. 7.

- Some State taxes form part of the tax base for the GST (e.g., fire services levy in those States retaining this very inefficient and unfair tax).
- The GST forms part of the tax base for other State taxes (e.g., stamp duties).
- As a result, in some cases, and in particular involving property (the potential tax base for local government), we now have ‘tax on tax on tax’ problems. For example, the fire services levy in Victoria is part of the tax base for GST, and both are part of the tax base for stamp duty on property insurance.

One option for augmenting local government revenue (which, in a way, is GST-related) has two parts:

- Initially, calculate the total revenue for each State attributable to ‘tax on tax’ effects associated with the introduction of the GST. For each State, allocate this revenue to the local government sector immediately.
- Over time, and ideally, amend the IGA to eliminate all ‘tax on tax’ effects associated with the GST, making room for a corresponding increase in revenue from local government rates.<sup>30</sup>

- 6.63 The problem with this proposal is that it may institutionalise some tax on tax effects of the GST as a revenue source for local government and this would be at the expense of the States.
- 6.64 Local government is not a party to the inter-governmental agreement on the GST and it would be preferable for the Commonwealth, States and local governments to address tax on tax effects of the GST.

### Recommendation 15

- 6.65 **The Committee recommends that the Commonwealth, States and local governments consider what tax design improvements would be necessary to eliminate tax on tax effects arising out of the GST.**
- 6.66 There is a need for action by all levels of governments to address the current funding situation, for example:
- better management of both budgets and community expectations by councils at the local level; and

<sup>30</sup> Access Economics, *The Case for Increased Funding for Local Government, An assessment prepared for the city of Port Phillip*, February 2003, p. 29.

- a review at the Federal level of:
  - ⇒ SPPs paid to the States and Territories with a view to isolating funds for direct payment to local government
  - ⇒ relevant anomalies of ANTS; and
  - ⇒ the revenue-raising capacity of councils and consideration of financial penalties for States and Territories which fail to adequately support or deliberately suppress that capacity. (Recommendation 17)

### Summit on Inter-governmental Relations

6.67 The Committee concluded that the findings of the CGC Review and the evidence collected for this Inquiry all point to the need for COAG to convene a *Summit on Inter-governmental Relations* to address inter alia:

- cost shifting and the provision of Federal and State government management of SPPs;
- unfunded mandates;
- State policies which restrict revenue-raising capacity of local government;
- the elements of the New Tax System which affect local government;
- the capacity of local government to maintain its infrastructure; and
- progress in the allocation of FAGs to local government on a needs basis. (Recommendation 17)

### Certainty of funding

6.68 Many councils raised as an issue their need for certainty of funding particularly in relation to cost shifting. The often unforeseen demands imposed through increased compliance measures, new legislation and regulations were made more difficult to deal with when funding was neither fixed nor predictable.

6.69 Further, local government is worried that past experiences with cost shifting will be repeated if it offers to accept an even greater role in acting as an agent for the Federal or State governments in delivering programs.

6.70 The Committee concluded that successful long term strategic and financial planning at the local government level depends on certainty of funding and this matter should be addressed at the COAG Summit.

### Local Government revenue-raising capacity

- 6.71 When considering the need for certainty of funding, local government must be responsible for maximising its revenue raising capacity. Rate capping is a major issue for NSW, the only State which caps rates, and was raised by nearly all councils in that State as a significant impediment to revenue raising. There are many examples of suppressed revenue raising capacity and not all relate to rate capping.

Yarrowlumla has done rate pegging twice in the last 15 years. The first time, we got an eight or nine per cent increase because we had a fight with the New South Wales farmers. They engaged a consultant to do an economic survey on us and prove that we were well behind in our rating capacity because of local political decisions not to accept rate pegging when it first started, when it was very high increases per annum. I was not there at the time, but there was basically a farmer council and they did not want to increase their farm rates. They said when there was an eight per cent increase they took zero.

Access Economics did it on behalf of the New South Wales farmers and they presented us with the report. It showed we were something like \$1.2 million behind in what our rate revenue should have been. Had the council done it and increased the rates as they should have when rate pegging was available, our rate base would be quite considerable.<sup>31</sup>

- 6.72 The inequities developed from different bases of rate levels can be found in many instances. According to Tweed Shire:

If we rated our properties on the same basis as Lismore we would have an extra \$12 million income on a base of \$22 million income we have from that rating. Tweed was one of the councils that were caught with a very low rate base 30 odd years ago.<sup>32</sup>

- 6.73 At the same hearing, Hunters Hill Council then added:

That is not uncommon in Sydney. For instance, I did a comparison of the rates between Hunters Hill and Lane Cove, Ryde and Canada Bay, which are our three adjoining councils. If our ratepayers paid the same rates, their rates would more than double, yet on average our property values would be significantly higher than in those adjoining councils.

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31 Yarrowlumla Shire Council, Official Hansard, Moruya, 30 April 2003, p. 828.

32 Tweed Shire Council, Official Hansard, Sydney, 28 April 2003, p. 712.

..In New South Wales, you will find that the rates as a proportion of overall revenue of councils have decreased over that 30-year period. You might expect, because we are growing in terms of property values, that councils might have more rate revenue. In fact, you will find the rate revenue as a proportion of overall revenue has decreased. That is not necessarily the same for the Western Sydney councils. You will find that has probably increased.<sup>33</sup>

6.74 The response to the issue of rate capping by the Chairman of the NSW LGGC shed some light on the attitude of the State government:

The rate pegging issue is a big one in New South Wales. However, keeping rate pegging alive and where it is has bipartisan support in the parliament. A lot of people think it is a pretty strange system, and no other states have it, but the fact is that, politically, no-one seems to want to remove it. The other point I would make is that rates, as a percentage of total income of councils, vary a great deal across the 172 councils in our state. The amount of money some councils would get through what they call 'other charges' and so forth would be greater than the amount that some councils raise in rates. The income side of it has changed a lot. The importance of rates varies a great deal across the state.<sup>34</sup>

6.75 At the hearing in Newcastle, the Committee also heard evidence of the effect of charges set by statute which was representative of the issue across the country:

Rates are not our only income pegged by the state government. Many of our charges are also set by statute. If you combine rates and charges for quite significant areas, like the development area for example, you will find that a substantial proportion of our income is pegged. Given that our entire expenditure increases by the CPI, or more in the case of salaries and wages, it is not difficult to see how we run into financial difficulties and how that is exacerbated as time goes on.<sup>35</sup>

6.76 The City of Newcastle provided information on new responsibilities placed on it, particularly as a result of State government decisions. In total, the effect of these responsibilities was additional costs to

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33 Hunters Hill Council, Official Hansard, 28 April 2003, Sydney, p. 709.

34 NSW LGGC, Official Hansard, Canberra, 27 June 2003 p. 869.

35 Lake Macquarie City Council, Official Hansard, Newcastle, 29 April 2003, p. 795.

Newcastle City Council nearing \$4.481 million per annum on an on-going basis.<sup>36</sup>

- 6.77 At the final public hearing, a succinct summary of the difficulties faced by councils due to State control of revenue-raising by local government was outlined and it reflected the situation across the country in one form or another:

One of the big causes of cost shifting is revenue denial, in effect, by the state, which could be looked at in the next agreement. I will give you a very practical example. In my city between 15 and 20 per cent—I cannot remember the exact percentage—of my revenue comes from fees I charge which are totally controlled by the state. .... the point is that I have probably 70 or 80 statutory charges which they have not put up for five years because, (1), they do not want to, and, (2), it is not front of mind. That effectively means that I have to put another one per cent of rates on, because I have a section of my income that is going nowhere.

There is a range of them: parking fines, building registration, planning fees, some aged care fees. These are all things that are prescribed and you are not allowed to put them up and that puts a lot of strain on us. It is one of the major sources of cost shifting. It seems to me that maybe those sorts of things can be picked up when we are doing agreements. It is no different from, say, rate capping in New South Wales; that is a similar example. It just puts strain on the system. Those things probably can be addressed in agreements.<sup>37</sup>

- 6.78 The Committee concluded that rate and charge capping is inconsistent with local government being fully accountable for its own financial circumstance and that the effect of State policies on the revenue-raising capacity of local government should be considered at the COAG Summit on Inter-governmental Relations. (Recommendation 17)

## Minimum grants

- 6.79 The Committee recognises that the minimum grant represents an artificial constraint on the methodology of distributing FAGs. The CGC noted:

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36 The City of Newcastle, Email dated 30 July 2003.

37 City of Stonnington, Official Hansard, Canberra, 27 June 2003, p. 883.

By definition, minimum grant LGBs are overequalised because they receive more than their assessed equalisation outcome. They are able to function at a standard higher than other LGBs within their State (those that receive their underequalised outcomes). Minimum grant LGBs have the choice of providing services above the State average or providing the average State service and making a lower revenue effort.<sup>38</sup>

6.80 LGMA stated that its members do not support the retention of the minimum grant.<sup>39</sup>

6.81 LGMA also recognised that the minimum grant could be a deterrent to structural reform:

That is a serious issue where we have minimum grants and people get to rely on that amount of money, and you have an inherent inefficiency in the system.<sup>40</sup>

6.82 There was a predictable difference of opinion regarding the minimum grant which, in the main, reflected the financial position of the council. Examples from Queensland demonstrate the breadth of opinion.

6.83 The ULGAQ asserted:

The urban councils need to be protected and would fiercely oppose any reduction in the minimum grant to further subsidise some of the smaller areas. Here in Queensland, we think that we are paying too much for that as it is.<sup>41</sup>

6.84 The tension between urban and rural claims on funding was obvious at the hearing in Longreach:

Under the formula, if they [councils] are not entitled to it but they are given it and yet there are other councils that are entitled to it that are not getting it, is that fair? It is all the bigger councils that are on the minimum grant. We are only talking about 0.1 per cent or less of impact on their rates. Out here, you are talking about 100 per cent impact on their rates.<sup>42</sup>

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38 CGC, *Working Papers for Review of the Operation of the Local Government (Financial Assistance) Act 1995*, p. 52.

39 LGMA, Official Hansard, Canberra, 27 June 2003, p. 891.

40 LGMA, Official Hansard, Canberra, 27 June 2003, p. 875.

41 ULGAQ, Official Hansard, Townsville, 13 March 2003, p. 678.

42 Longreach Shire Council, Official Hansard, 12 March 2003, Longreach, pp. 632-3

6.85 Somewhere in the middle of this tug of war was the following considered position adopted by Redcliffe City Council which is a minimum grant council classified as Urban Development Medium:

This Council is of the strong opinion that Queensland is being disadvantaged by the current per capita distribution of general purposes funding in the Commonwealth grant / local government (Financial Assistance) Act and whilst there has been much debate recently regarding the methodology of the Queensland Grants Commission there needs to be a fairer distribution of the Federal funding across local governments in Australia.

The current method of distribution does not take into account the environment nor circumstances of local government in the more sparsely populated areas and until that is done there will be the inequitable situation that currently prevails.<sup>43</sup>

6.86 The Queensland government supports continuation of the minimum grant<sup>44</sup> and the LGAQ does not support any reduction in the current minimum grant entitlement.<sup>45</sup>

6.87 The Shire of Eurobodalla, expressing the views of many councils across the country, made the following arguments to support the abolition of the minimum grant:

- metropolitan councils have completed their construction of infrastructure while councils outside these areas have in many instances 40 years of backlog works;
- major population centres utilise rural and regional roads and facilities while making no contribution to their construction and provision;
- metropolitan communities enjoy an enhanced level of facilities which are funded from State taxes, whereas, in regional and remote communities the provision of facilities is at the cost of the local ratepayers;
- rural and remote centres do not have the economies of scale associated with the high population density of cities. Similarly, the returns from rates over a smaller landmass are far greater per square kilometre than their country counterparts; and

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43 Redcliffe City Council, Submission No. 277, p. 6.

44 Email dated 8 August 2003.

45 LGAQ, Submission No. 363, p. 2.

- in many instances rural and remote communities do not enjoy essential 'telecom', rail or air services which have a impact on the creation of sustainable employment opportunities.<sup>46</sup>

6.88 The Shire of Chittering referred to the minimum grant as inequitable and unjust:

The grant is merely a handout to affluent Councils without any real or measurable justification. The pool of funds created of up to \$75 million could be used more beneficially for Local Governments and their communities.<sup>47</sup>

6.89 The CEO of the City of Stirling made the observation that the FAGs grant is a very small part of the income of some councils, which in many cases would consider the administration of the minimum grant a chore:

I would suggest that a very large number of councils now on minimum grants really might find, when they look at the end value and what it means in the total picture of income for that local government, that going through the submissions and the requirements to comply that they need to go through to gain that grant is really too much of a chore. In those areas, there are more important issues and other alternative avenues of funding that we might place greater emphasis on.<sup>48</sup>

6.90 The SA government supported the reduction of the minimum grant to enable financially strong councils to reduce their reliance on grants by instead increasing own source revenue.<sup>49</sup>

6.91 At the hearing in Hobart where the matter of abolition of the minimum grant was raised LGAT commented:

There are 27 (of 29) councils that say it is a wonderful thing, but perhaps it is best that those that have got minimum grants to speak for themselves.<sup>50</sup>

6.92 NSW and Tasmanian governments did not provide submissions to the Inquiry.

6.93 The Victorian and NSW Local Government Associations both supported retention of the minimum grant.

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46 Eurobodalla Shire Council, Submission No. 378, p. 11.

47 Shire of Chittering, Submission No. 370, p. 5.

48 City of Stirling, Official Hansard, 27 June 2003, Canberra, p. 873.

49 SA Government, Submission No. 385, p. 5.

50 LGAT, Official Hansard, Hobart, 18 February 2003, p. 428.

- 6.94 The Committee concluded that the minimum grants should be abolished in line with equalisation principles but phased out over a period of three years. (Recommendation 16)

## A growth base for FAGs

- 6.95 Local government as a whole has called for an increased and growth based share of Commonwealth taxation collections.
- 6.96 Many councils have claimed that local government would be better served by having a defined share of public dollars, and in an effort to secure a growth base for FAGs, it has been suggested that FAGs be linked to the GST.
- 6.97 Under the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations* (IGA), all GST revenue is paid by the Federal government to the State governments. Oversight of the IGA is vested in a Ministerial Council and any issues to be considered by the Ministerial Council are ultimately determined by unanimous agreement.
- 6.98 Commonwealth Treasury stated that under the IGA it has always been envisaged that the GST funds that the States received would grow faster than the guaranteed minimum amounts paid, so that over time the States would be better off under the IGA.
- 6.99 However, the transitional period for the full introduction of the GST arrangements affords the Commonwealth savings:
- During the transitional period, the Commonwealth can make savings on budget balancing assistance, to the extent that GST is higher than forecast. But once the transitional period ends, all additional GST revenue accrues to the states.<sup>51</sup>
- 6.100 It could be argued that, due to GST revenue being higher than originally forecast, the saving made by the Commonwealth on budget balancing assistance paid to the States during the phase-in period could fund an increase in FAGs. This increase could make up lost ground due to the inconsistency of the escalation factor.

## Tying FAGs

- 6.101 The FAGs are not specific purpose grants; they are intended to equalise the capacity to provide services. Many councils rely on FAGs for a

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51 Ms Edsor, Department of the Treasury, Official Hansard, 27 June 2003, p. 877.

substantial amount of their income especially in rural and regional Australia and councils claimed that attributing FAGs to specific purposes would be difficult to do as they are discretionary in nature and enable a council to respond to its local community's priorities.

- 6.102 The Committee recognised the need for discretionary funding in order for local government to maintain the capacity and flexibility to be able to plan for, and deal with, local needs as they arise.
- 6.103 The NT government however supported the tying of FAGs to ensure that funds are spent on core local government services.<sup>52</sup>
- 6.104 The Committee concluded that, as both the General Purpose pool and Identified Road component of FAGs are currently untied and provide the discretionary funding necessary to meet local needs, they should remain untied and be collapsed into one pool. (Recommendation 16)

## Local Government Grants Commissions

- 6.105 The lack of transparency of the methodologies used by the LGGCs was criticised by local government. Those councils which expressed concern maintained that they should be able to understand both why they received the funding allocated as well as how the funding formula works. The Committee considers that if any formula used to allocate FAGs is transparent, albeit complex, then the representatives of councils would either be able to accept the funding allocated or argue on reasonable grounds as to why the formula should be amended.
- 6.106 The Department of the Parliamentary Library in a 2003 paper, *Commonwealth General Purpose Financial Assistance to Local Government*, stated that the LGGCs do not use consistent methodologies to determine the intrastate allocation of grants. Moreover, it was questionable whether some of the methodologies meet the objective of fiscal equalisation.<sup>53</sup>
- 6.107 In its submission to the CGC *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, the National Office of Local Government stated:

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52 Northern Territory Government, Submission No. 358, p.1.

53 Department of the Parliamentary Library, *Commonwealth General Purpose Financial Assistance to Local Government*, Research Paper No. 1 2003-04, 11 August 2003, p. 18.

The Act does not appear to be meeting its goal in promoting consistency in the grant distribution methodologies employed by the State and Territory Grants Commissions.

... It would be unreasonable not to expect grant outcomes to reflect the unique situation of each State and Territories' Local Government structure. However, **it appears that the differences in grant outcomes are not solely explained by these State and Territory differences and reflect aspects of State and Territory Grants Commissions methodologies which according to the Local Government National Report are difficult to defend and not consistent with the objective of horizontal equalisation.**<sup>54</sup>

6.108 The National Office of Local Government therefore advocated that:

The Commonwealth Grants Commission assess the feasibility of developing, in consultation with State and Territory Local Grants Commissions, a standard framework that could be adopted by all State and Territory Grants Commissions to guide them in their application of the National Principles and their general purpose and local road grants methodologies. This standard framework would seek to promote, as far as is practical, greater consistency in methodologies between State and Territory Grants Commissions and greater consistency in the application of the National Principles.<sup>55</sup>

6.109 The differences in methodology used in each state compound the confusion of councils, particularly when comparisons were made about differences in funding received by similar councils in different States and Territories.

6.110 Many councils have questioned whether the distribution methods used by the LGGCs are logical and fair. For example, LGMA referred to the formulas in South Australia revolving around population rather than around properties:

Any methodology that has a correlation between the capital values of properties and the capacities of councils to raise revenue, particularly from their residential populations, is fallacious, I think. It ignores many of the sections of communities that do not have access to income. They may be

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54 Department of Transport and Regional Services, Submission to the CGC *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, pp. 26, 34.

55 Department of Transport and Regional Services, Submission to the CGC *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, p. 6.

asset rich in one sense but in another sense their flow of income is quite restricted, either as self-funded retirees or as pensioners. I think there is a fundamental flaw there. If we are talking about equity, we ought to be talking about people's capacity to pay, about their capacity to consume and about what the local authorities owe them in terms of provision of service—and I do not believe that can revolve around pure populations.<sup>56</sup>

- 6.111 Hume Shire Council suggested distributing a portion of the total allocation to high population growth areas based on some type of betterment factor. This would recognise that the need for services follows increases in population.<sup>57</sup>
- 6.112 Maroondah City Council summed up the sentiment of a range of councils across the country in calling for the Commonwealth to take a lead on this matter through a statement or agreement setting out policy, objectives and processes that would assist in facilitating the operation of the FAGs system:
- At the moment each municipality plays the game of 'trying to maximise your grant' at the expense of other councils playing the same game in a scenario where none of them fully understand the rules of that game. This is a recipe for a waste of effort and perennial frustration.<sup>58</sup>
- 6.113 The LGGCs maintained that consultation with councils is an important part of their requirements. All LGGCs have visiting programs and call for submissions on methodology. The LGGCs noted that the consultation process and reviews of methodology is a cost borne by the State governments.<sup>59</sup>
- 6.114 The LGGCs also maintained that their allocation process is apolitical, although the Committee understood some councils were reluctant to express a view on the performance of the LGGCs for fear of funding repercussions.
- 6.115 The Committee concluded that a national approach should be developed for distribution of financial assistance to local government. (Recommendation 16)

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56 LGMA, Official Hansard, 27 June 2003, Canberra, pp. 867 & 871.

57 Hume Shire Council, Submission No. 381, p. 2.

58 Maroondah City Council, Submission No. 395, p. 3.

59 Victorian LGGC and SA LGGC, Official Hansard, 27 June 2003, Canberra, pp. 860 & 870.

## Direct payment of FAGs to local government

- 6.116 There are naturally differing views of direct funding of FAGs from the Federal to local government. LGGCs oppose a central distribution model for FAGs. Not surprisingly, those councils concerned by the current allocation processes of the LGGCs, a naturally complex process, call for a direct funding relationship with the Federal government; they want the allocation of funds determined by a model which will apply to all councils.
- 6.117 Councils in each State and Territory applauded the successful Roads to Recovery Program and on the basis of this experience with the Federal government asked that FAGs be delivered in the same way; ie. direct to local councils rather than via a LGGC.<sup>60</sup>
- 6.118 ALGA in the hearing of 5 September 2002 said:
- The direct funding approach that is used in Roads to Recovery has been highly successful. ...The principle has been very strongly supported within our constituency and if that principle were to be extended to the financial assistance grants then it would certainly be an approach that we would like to seriously discuss with the Commonwealth that is, an extension of the direct funding principle from Roads to Recovery to financial assistance grants.<sup>61</sup>
- 6.119 In its submission to the Inquiry, LGMA stated:
- There appears to be no benefits derived from filtering Federal Grants through state agencies which add unnecessary costs, delays and potentially distort outcomes.<sup>62</sup>

### Differences of views on the direct payment of FAGs

- 6.120 The SA LGGC claimed that a model which allocates centrally to all councils will not work, whereas a model which allocates through organisations based at the State level would assist in allocation between councils within each State.<sup>63</sup>
- 6.121 The City of Salisbury suggested as an alternative:
- ... the possibility of the Commonwealth distributing grants directly to local government, based on a single national

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60 Hume Shire Council, Submission No. 381, p. 2.

61 ALGA, Official Hansard, 5 September 2002, Canberra, p. 151.

62 LGMA, Submission No. 380, p. 7.

63 SA LGGC, Official Hansard, 27 June 2003, Canberra, p. 864.

formula, but drawing advice within states from State Grants Commissions.<sup>64</sup>

6.122 The NT Grants Commission stated:

It is inconceivable to me that some centrally managed pool of people to manage funds nationally can surpass the sum total knowledge of the state and territory grants commissions.<sup>65</sup>

6.123 However, Katherine Town Council noted:

We believe we should perhaps be dealing directly with the Commonwealth government. Local government, I believe, should be looked at on a national basis rather than on a state by state or territory basis.<sup>66</sup>

6.124 The Victorian LGGC wrote:

In summary, the Victorian Government Grants Commission strongly opposes any suggestion that financial assistance grants should be allocated directly by the Commonwealth Government. The Commission believes that this would necessitate the adoption of a single allocation methodology that, together with a centralised administrative structure, would be unable to respond adequately to the differing needs of local governing bodies across Australia.<sup>67</sup>

6.125 Knox City Council stated:

A model of direct responsibility complemented by direct funding is supported. This model will assist with addressing the gap in resources funding.<sup>68</sup>

6.126 The WA LGGC advised that given the strong local government support in WA for the current arrangements, it is considered that local governments would resist a centrally based system.<sup>69</sup>

6.127 However, WALGA, at the first public hearing of the Inquiry, observed:

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64 City of Salisbury, Submission No. 307, p. 2.

65 NT Grants Commission, Official Hansard, 7 October 2002, Katherine, p. 865.

66 Katherine Town Council, Official Hansard, 7 October 2002, Katherine, p. 865

67 Victorian Grants Commission, Submission 389, p. 13.

68 City of Knox, Submission No. 148, p. 19.

69 WA LGGC, Submission No. 388, p. 4.

What you need are efficiencies in the system and you need appropriate accountabilities, not layers and layers of accountabilities. For all the legal and jurisdictional issues, you still ask why the Commonwealth should collect money, hand it to the state, have an administrative process by the state and then transfer it to local government. A far more direct relationship would be more efficient and more effective if we can solve the jurisdictional and political argument that goes with that.<sup>70</sup>

- 6.128 The LGAT discussed the change to a model of direct payment of FAGs to councils at the public hearing in Hobart:

How do you deal with a significant change of circumstance? If it is a Canberra run bureaucracy, how does the little council in the outback feel it can get its fair value? It is a dichotomy. We love the Roads to Recovery model. We deal with Canberra bureaucrats and there is no trouble; we love them.<sup>71</sup>

- 6.129 Gatton Shire Council in Queensland submitted:

The mechanism used to deliver Commonwealth Grants Commission funding to local governments through a state bureaucracy appears to be inefficient and could be more effectively managed directly through the Commonwealth. Funding formulae which take into account differences between the needs of local governments in different states could still be applied as required under a more centralised model.<sup>72</sup>

- 6.130 The Queensland LGGC expressed the following view:

The risk with one central body performing this role, is that local governments will feel distanced from the allocation process and become dissatisfied. It may also be less responsive to the changing needs of local governments. It is difficult to see a central body having an in-depth knowledge of the factors affecting 722 councils across all States and Territories.<sup>73</sup>

- 6.131 The LGGCs have the in-depth knowledge of factors affecting the 721 councils across all States and Territories but as the City of Salisbury and the Shire of Gatton point out, there is no reason why that knowledge cannot be fed into a central distribution model.

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70 WALGA, Official Hansard, Perth, 6 August 2002, p. 6.

71 LGAT, Official Hansard, Hobart, 18 February 2003, p. 441.

72 Gatton Shire Council, Submission No. 197, p. 1.

73 Queensland LGGC, Submission No. 392, p. 5.

- 6.132 A new federal funding model for local government has a number of advantages:
- greater transparency due to the uniform application of one methodology;
  - distribution of FAGs on the basis of equalisation rather than per capita;
  - input from LGGCs on the individual factors of the methodology necessary to reflect local need;
  - a strengthened relationship between local and federal governments; and
  - a federal/state/local government partnership in allocation of FAGs.
- 6.133 Moving to a national formula for providing FAGs poses a number of challenges including:
- the need for a new national allocation model;
  - the need for resolution of data collection issues; and
  - the development of administrative arrangements to operate the new allocation system.
- 6.134 The Committee carefully considered the concerns of councils, the Local Government Associations and the LGGCs and sought to find a solution to maintain local input through the work of the LGGCs, while at the same time producing a more efficient direct funding model.
- 6.135 The Committee concluded that the CGC is the appropriate organisation to develop the new funding model in consultation with local government, LGGCs, and State and Territory governments.
- 6.136 When the model is developed the CGC would be responsible for local government funding in a similar manner as it is for allocating GST payments to the States.
- 6.137 The expertise currently residing in the LGGCs would have a continuing role in assisting local government to present data and argument to the CGC under administrative arrangements to be worked out between local government and State and Territory governments.

### **Federal and Local Government Finance Advisory Group**

- 6.138 The Committee believes the optimum arrangement for funding local government would be a partnership between the Federal government

and the LGGCs in each State and Territory in order to ensure there is a consistent allocation of funds irrespective of State boundaries.

- 6.139 A key stakeholder group of Federal government, LGGCs and relevant experts should be established to commence work on the development of a specific local government funding model.
- 6.140 Given that the intention of the Act is to provide assistance to the relatively disadvantaged LGBs and, taking into account local government concerns with the current arrangements including the lack of clarity of purpose of the funding at the federal government level, the Committee discussed the need for a funding arrangement that:
- equalises the allocation of funds to all LGBs, irrespective of State, on the basis of need;
  - utilises a new approach to funding and resolves the capacity to pay issue;
  - is uniform, transparent and predictable;
  - works with State and Territory governments and utilises their information and expertise; and
  - acknowledges the special requirements of indigenous people by means of a weighted factor in the formula.
- 6.141 The Committee concluded that a new funding arrangement for financial assistance to local government should be implemented which would address both the outstanding issues highlighted by the CGC as well as the current issues raised during the course of the Inquiry.
- 6.142 The Committee also concluded that the development of a new local government model should draw on the expertise of key stakeholders, the range of models suggested by Professor Farish, and that the distribution of funds should be managed independently by the CGC. (Recommendation 16)

#### Reporting on expenditure

- 6.143 The Committee also carefully considered the financial reporting demands placed on local government. According to some councils there is already too much form filling required for both FAGs and SPPs.
- 6.144 Many indigenous community councils in the Northern Territory and Queensland added that they found it difficult to meet the reporting requirements of all the funding programs of the Commonwealth and the Territory and State governments.

- 6.145 Also, there are a plethora of surveys to complete regarding aspects of community life. Barunga Manyallaluk Community Government Council stated that there were 18 surveys to be completed within seven months.<sup>74</sup>
- 6.146 The Torres Strait Regional Authority stated that because they must draw on financial assistance from many jurisdictions, they face rigorous accountability and compliance requirements.<sup>75</sup>
- 6.147 The NT LGGC stated:
- The problem is of an incredible scale and it is terribly debilitating for remote councils in particular to have to deal with this never-ending procession of bureaucrats, either Commonwealth or state, in an uncoordinated way. Invariably they arrive without any planning and unannounced and each expects the exclusive time of that remote council, which by any measure is probably least equipped to deal with this myriad of functionaries who want that focused attention.<sup>76</sup>
- 6.148 Barunga Manyallaluk Community Government Council provided an example of ‘accountability gone mad’:
- Our grant under the HACC program is about \$9,334 per quarter (average for 2001/2002), and yet as well as submitting financial acquittal information and reports on achievements, our women who provide the service have to keep detailed statistics of every meal provided and other personal information about each recipient and every 3 months fill out the answers on a 19 question form for each person who is provided with meals. This is not an easy task for the women, most of whom are grandmothers and have limited education.<sup>77</sup>
- 6.149 The NT LGGC suggested that the answer is to empower those remote councils to coordinate when, in what order and who they will see. DOTARS suggested a solution might be to operate on a regional level much like the Sustainable Regions program where local management is set up to draw resources from both Commonwealth and State agencies.<sup>78</sup>

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74 Barunga Manyallaluk Community Government Council, Submission No. 295, p. 5.

75 Torres Strait Regional Authority, Submission No. 362, p. 8.

76 NT LGGC, Official Hansard, 27 June 2003, Canberra, p. 899.

77 Barunga Manyallaluk Community Government Council, Submission No. 295, p. 9.

78 DOTARS, Official Hansard, 27 June 2003, Canberra, p. 900.

- 6.150 It was understandable also that those councils with a strong track record of sound financial management asked that they be rewarded with greater trust and less onerous reporting requirements.
- 6.151 LGMA supported the introduction of performance monitoring of local governments that rewards efficiency and those that are achieving. LGMA stated it would welcome accountability and transparency where grant funds are being passed on through the system.

... most of our local governments are moving into the situation where they are recording performance indicators themselves. They are keen to start looking at benchmarking with others. It is important when we benchmark, if we are going to gain any efficiencies out of benchmarking, that we must compare apples with apples; so there are some ground rules that need to be set so that that information is uniform. Certainly, we believe the grants commissions could gather some of that information. Providing that it is available openly and transparently, we believe it can only serve to benefit local government and raise standards.<sup>79</sup>

- 6.152 The Committee concluded that the:
- new local government funding model should incorporate realistic financial reporting requirements which take into account the differing capacities of councils; and
  - new arrangements be phased in over three years.  
(Recommendation 16)

## **A new approach to funding local government**

- 6.153 The *Local Government (Financial Assistance) Act 1995* identifies two goals of the Commonwealth in providing the financial assistance. They are to:
- increase the transparency and accountability of the allocation of funds by LGGCs; and
  - promote greater consistency in the methods used to allocate equalisation grants.<sup>80</sup>

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79 LGMA, Official Hansard, 27 June 2003, Canberra, p. 892.

80 CGC, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. xii

- 6.154 Further the CGC notes that because the Act recognises that full horizontal equalisation cannot be achieved, it is clear that its intention is to provide assistance to the relatively disadvantaged LGBs.<sup>81</sup>
- 6.155 Councils argued for greater transparency, accountability and consistency in the allocation of FAGS. Further, there were calls for clarity of the purpose of FAGs on the part of the Federal government. Change was sought in response to:
- the desire on the part of local government for a strengthened relationship with the Federal government;
  - the success of the Roads to Recovery program which distributes funds direct from the Federal government to local government;
  - the demand from councils in a majority of States and the NT to address per capita interstate distribution of FAGs and the minimum grant;
  - the need for consistency and transparency of methodology across the nation; and
  - the performance of LGGCs.
- 6.156 A funding arrangement which took into consideration these issues would go a long way to addressing the following concerns raised by the CGC in its recent review in relation to LGGCs:
- They do not assess all areas of expenditure and revenue, they do not assess all of the influences that affect the cost of providing services or the capacity to raise revenue, and some of them do not assess relative advantage and disadvantage. These aspects of their practices are not consistent with a proper assessment of relative needs and would not, therefore, be consistent with delivering equalisation outcomes.<sup>82</sup>
- 6.157 In 1990, when the CGC was asked to review the interstate distribution, there were reservations about the appropriateness of the methodology being used and the quality and availability of relevant data. The CGC believed that suitable relativities could be determined provided there were improvements in data sources and refinements in methodology.<sup>83</sup>

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81 CGC, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p.15.

82 Commonwealth Grants Commission *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, p.17.

83 DOTARS, Submission No. 103, p. 60.

6.158 There is now a methodology available, based on equalisation principles, which has been applied centrally. The model adopted by the Commonwealth Department of Education, Science and Training to fund non-government schools centrally distributes funding to 980 schools on equalisation principles. The Committee requested an explanation of that model at the hearing in North Sydney to determine whether it could apply to the distribution of local government FAGs.<sup>84</sup>

6.159 Professor Farish explained in subsequent correspondence that possible models include but are not limited to:

- non-socio economic status (SES) data-driven models utilising data from LGAs and other sources;
- SES plus other data models, with all funding based on a hybrid of SES data and other data;
- SES-only models, with all funding based on one of many possible SES models that utilise ABS data at the LGA level;
- part-funding models where existing policy and other factors dictate one portion of total funding – for example, equal-per-capita, or minimum grant provisions, or capped amounts – and one of the above three options are used for the balance; and
- any form of the above that include growth factors, for example, growth associated with increased economic activity that leads to increases in funding levels necessary to maintain HFE principles.

6.160 Further, Professor Farish noted:

In addition, state-based differentials in funding local government can be incorporated into any approach based on the above models.

A formula-based model would also allow for some certainty of funding, and allow for transparency of the funding process, whilst still permitting active healthy debate about the rationale and relative importance of different components.<sup>85</sup>

6.161 The Farish model also incorporates one particular factor which LGGCs found difficult to calculate, the capacity of a community to pay:

In assessing capacity to pay, it takes some account of differences in family income but, simply because of the lack of

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84 Professor Farish, Official Hansard, 28 April 2003, North Sydney, p. 751

85 Professor Farish, Correspondence 20 August 2003.

data, I personally think it is the hardest and most vexatious question the grants commission has had to answer.<sup>86</sup>

... we have been wrestling with this issue of capacity to pay for some time and we have put in place some temporary arrangements ... we recognise that there is no simple solution to that. We have had a couple of goes at it and this will be our third major attempt to look at that capacity to pay issue.<sup>87</sup>

...Capacity to pay in an ageing population is another issue which the LGGCs are grappling with.<sup>88</sup>

- 6.162 At the hearing in Hobart, the General Manager, Devonport City Council reflected on his experience of the non-government schools funding model:

I have had some exposure to the SES, because I was chairman of a school board when it was introduced. Frankly, I think it would be more appropriate for local government than it is for schools. ...I do not see the need for a Grants Commission in each state. If there were a proper, rigorous system which was transparent – and the type of thing you were talking about is quite transparent – I do not have any problems with that being used to distribute money directly to councils.<sup>89</sup>

- 6.163 If a central distribution model based on equalisation principles exists and the methodology can accommodate factors relevant to local government, the building of a new and specific local government funding model which incorporates the information held by local government and LGGCs and other relevant factors should be possible.

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86 Queensland LGGC, Official Hansard, 27 June 2003, Canberra, p. 872.

87 Victorian LGGC, Official Hansard, 27 June 2003, Canberra, p. 871.

88 SA LGGC, Official Hansard, 27 June 2003, Canberra, p. 872.

89 Devonport City Council, Official Hansard, Hobart, 18 February 2003, p. 442.

**Recommendation 16**

- 6.164 The Committee recommends that a new methodology for the distribution of FAGs to local government be designed which incorporates the following elements:**
- **a national model which is consistent across each LGB;**
  - **distribution of funds on equalisation principles i.e. on the basis of need;**
  - **funds to be paid direct to local government;**
  - **funds to remain untied and be allocated from one pool;**
  - **data on local conditions/factors to be provided by LGGCs;**
  - **a weighted factor be applied to indigenous community councils to ensure their level of disadvantage is taken into account;**
  - **appropriate acquittal arrangements; and**
  - **a new model, as presented by Professor Farish, to be designed by a Federal and Local Government Finance Advisory Group of experts and phased in over three years, with the process to be facilitated by the Commonwealth Grants Commission.**

## The way forward

- 7.1 At the Committee's final hearing on local government and cost shifting a senior official of DOTARS made the following comment:

The FAGs Act is really structured on the basis that local government is a creature of the states. It does not provide a direct relationship in that sense. ...To move away from that requires the Commonwealth to take a quite different view of local government, its relationship with it and its governance. That is a debate which really has only just started – it is probably a starting point which the committee's report will provide some guidance to government on.<sup>1</sup>

- 7.2 The Inquiry has highlighted a number of issues that must be addressed and can only be resolved by all spheres of government working together. Cost shifting is, ultimately, a symptom of what has become dysfunctional governance and funding arrangements. It is time to combine the best efforts of governments and choose a better way.
- 7.3 There have been many demands for the three spheres of government to work more closely and eliminate duplication and wasted resources. In a shrinking and increasingly competitive world, the luxury of three spheres of government, with often different agendas, in a country of nearly 20 million people is straining our resources.

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1 DOTARS, Official Hansard, 27 June 2003, p. 894.

7.4 According to Mr Drummond of the Division of Management and Technology, University of Canberra, it has been estimated that the full extent of duplication and coordination costs under the current arrangements probably amount to more than \$20 billion per annum.<sup>2</sup>

7.5 It is time for us to closely examine the way we govern ourselves. The LGASA summed up best what all governments need to do:

To align the efforts, activities and financial relationships of the three spheres of government so that they can work together effectively beyond single terms of office or party political approaches.<sup>3</sup>

## Summit on Inter-governmental Relations

7.6 A Summit on Inter-governmental Relations, referred to in Chapter 6, provides the forum to discuss the issues which stand in the way of cooperative governance in Australia. The deliberations and outcomes of the Summit should provide a blueprint for the future.

7.7 The Committee envisages the Summit to be the starting point for a national effort to improve Australia's governance and consequent financial arrangements. A whole-of-government approach is required however to bring about change - a change which could be a turning point for the country.

7.8 Local government is recognised as an integral part of the federal system of governance and, as such, should be included in all future inter-governmental activities.

7.9 It is encouraging to note that in July 2003, through the *Framework for Cooperation on Regional Development*, Federal, State and Territory regional development ministers and local government agreed to the following principles in order to deliver government policies, programs and services to regional communities:<sup>4</sup>

Governments will seek to minimise duplication and overlap.  
The three spheres of government agree to clarify roles where

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2 Mr Drummond, Submission No. 331, p. 12.

3 LGASA, *Future Directions*, 2002-2003 Initiatives, p. 2.

4 DOTARS, *Framework for Cooperation on Regional Development*, July 2003, p. 2. Online: <http://www.dotars.gov.au/regional/rdcouncil/rdcframework.aspx>, Accessed 1 September 2003.

there is confusion and duplication, and to work together in areas where there will be significant benefit to regional development.

Governments will encourage communities to set their own priorities. Government policies and programmes will foster community empowerment and mobilise community resources to enable regions to better develop their capacity to determine their own future. Leadership and skills development are especially important in addressing systemic improvements in the capacity of communities to lead their own development.

Governments will cooperate with each other. Governments will share best practice and develop innovative, flexible and cooperative arrangements to meet the circumstances and needs of different regions better. This includes improving access to, streamlining, and enhancing government business and social services, including program delivery. Examples of such arrangements include joint funding, co-location, agency agreements and bilateral agreements, and collaborative research.

Governments will cooperate with the private sector. Governments and regional communities will work closely with business, whether internal or external to a region, to facilitate an environment conducive to private sector investment.

Governments will seek to use existing structures. Government policies, programmes and services developed in partnership with regional communities will seek to identify and build on existing structures and networks within regions.

Governments will seek to build on the competitive and comparative advantage of regions. Governments and regional communities will work closely together so that government assistance is effectively channelled to further develop sustainable regional competitive and comparative advantage.

Governments will consult with each other, wherever possible, where new programmes and services are being developed. Governments will establish consultative mechanisms to ensure effective and practical implementation of new programmes and services.

Governments will maximise their contribution by finding new ways to leverage existing resources to achieve better outcomes.

7.10 As Australia is comprised of regions whether in the city or the bush, the Committee believes these principles should apply to all inter-governmental business and that the Summit on Inter-governmental Relations should adopt these principles as the basis of discussion for all issues on the agenda.

7.11 The Summit on Inter-governmental Relations could consider, for example :

**Function of government -**

- tri-partite partnerships - which level of government does what function best;
- the growth in the number and range of services now delivered by local government;
- local government impact statements to accompany all new legislation which affects local government; and
- the level of funding to follow functions.

**Financial Arrangements -**

- restrictions on, and capacity of local government to raise its own revenue;
- measures to prevent future cost-shifting by all levels of government;
- review of Specific Purpose Payments;
- the state of infrastructure;
- borrowing capacity of local government;
- performance monitoring; and
- structural reform of local government.

7.12 The LGASA stated that, if the imbalance between local government responsibilities and resources was addressed, the following benefits could include:

- growing independence of communities from reliance on central governments;
- strategic infrastructure maintained;

- greater capacity to address geographic inequity across the nation;
- maintenance or improvement in services and funding in communities;
- strengthened economic capacity (as a result of maintained infrastructure and service standards);
- greater capacity of communities to impact on their own future and to cope with external impacts;
- greater capacity of central governments to respond effectively to differing local needs; and
- enhanced international competitiveness due to all of the above factors.<sup>5</sup>

However, LGASA contended that the converse could be expected if nothing is done to address the imbalance.

- 7.13 The Committee's recommendation in Chapter 6 that the Federal government's funding of local government revert to equalisation principles is a start, aligning funding with need. While those LGBs most in need through cost or revenue raising disadvantages would benefit, such a move requires a responsive commitment from councils to build their capacity and performance as a result of that increased funding; a performance partnership if you like.
- 7.14 Cost shifting, largely but not exclusively, at the hands of State governments cannot continue. There are, of course, a number of ways in which the Federal government could respond, many of which have been suggested by the local government sector. For example, the Federal government could:
- estimate the size of the cost shift on a State by State basis, deduct that amount from payments to the States and allocate that amount directly to local government; and
  - quarantine a portion of SPPs to local government.
- 7.15 The Committee considers that a review of the current arrangements and the commitment to get things right would be productive. Adjustments on the part of all levels of government are needed and good will is essential. Failure to move forward on this matter will mean more of the same; the waste of precious resources, frustration on the part of both the community and government and most importantly, the holding back of the nation as we compete on the world stage.

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5 LGASA, Response to Questionnaire No. 120, p. 1.

- 7.16 Greater appreciation of the role and responsibilities of local government is required at the Federal level. Thus, in the quest to get the financial balance right between State and local government, a tri-partite inter-governmental agreement should be considered.
- 7.17 The Committee concluded that the Federal Treasurer's responsibility to manage financial relations with the States should be extended to local government. Such an arrangement would help to ensure cost shifting between the spheres of government ceases and that the maximum value is extracted from the allocated tax dollar.
- 7.18 The Committee believes that this Inquiry has demonstrated clearly the desire of local government to work with the Federal government and hopes that State governments will embrace the proposed changes as a genuine attempt to forge a new, fair funding partnership between the three spheres of government which will better serve Australians wherever they happen to live.

### **Recommendation 17**

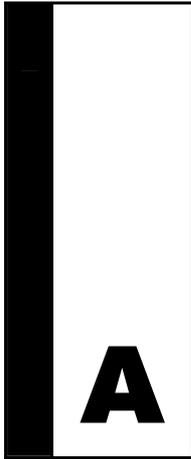
- 7.19 **The Committee recommends that COAG host a Summit in 2005 on Inter-governmental Relations:**
- **to report on the implementation of the Committee's recommendations;**
  - **to review:**
    - ⇒ **SPPs paid to States and Territories with a view to isolating funds for direct payment to local government;**
    - ⇒ **the relevant anomalies of ANTS;**
    - ⇒ **the revenue raising capacity of councils with consideration of financial penalties for States and Territories which fail to adequately support or deliberately suppress that capacity;**
    - and**
    - ⇒ **successful State/local government partnerships and the opportunities for Federal government participation in those partnerships;**
  - **to determine processes to develop:**
    - ⇒ **methods to resolve duplication and overlap of service provision;**
    - ⇒ **a fully responsible financial role for local government free**

- from policies that arbitrarily limit revenue raising capacity from their normal sources;**
- ⇒ **a direct financial relationship between the Commonwealth and local government;**
  - ⇒ **a national methodology for local government bodies to evaluate their infrastructure needs and requirements; and**
  - ⇒ **a set of principles to reduce cost shifting and unfunded mandates and to ensure that Commonwealth and State and Territory responsibilities administered by local government are adequately funded.**

### **Recommendation 18**

- 7.20 The Committee recommends that the Federal Treasurer assume responsibility for the financial relationship with local government.**

David Hawker MP  
Chair  
24 October 2003



## **Appendix A: List of Submissions and Exhibits**

<b>Submission No</b>	<b>Individuals/Organisation</b>
1	Mr Neil J Clark
2	Mr Andrew Solomon
3	Vaucluse Progress Association
4	Shire of Irwin
5	Coonamble Shire Council
6	Nhulunbuy Corporation Limited
7	Australian Education Union
8	Orange City Council
9	Roxby Downs Council
10	Ms Harriett Swift
11	Boorowa Council
12	City of Belmont
13	Wyndham City Council
14	Mr Bob Charles, MP
15	City of Ballarat

- 16 Hurstville City Council
- 17 District Council of Ceduna
- 18 Mr Ian Bowie
- 19 Crookwell Shire Council
- 20 Crookwell Shire Council (Supplementary)
- 21 Councillor Peter Dowling, Redland Shire Council
- 22 Mr John Black
- 23 Mr Ray Hunt
- 24 Mosman Municipal Council
- 25 Councillor Murray Elliott, Redland Shire Council
- 26 Riddoch Ward Community Consultative Committee
- 27 Guyra Shire Council
- 28 Gundagai Shire Council
- 29 Ms Judith Melville
- 30 Narrandera Shire Council
- 31 Horsham Rural City Council
- 32 Mr E. S. Cossart
- 33 Shire of Gnowangerup
- 34 Armidale Dumaresq Council
- 35 Country Public Libraries Association of New South Wales
- 36 City of Glen Eira
- 37 District Council of Ceduna (Supplementary)
- 38 Mr Geoffrey Burke
- 39 Corowa Shire Council
- 40 Hay Shire Council
- 41 District Council of Tumby Bay

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42	Dalby Town Council
43	District Council of Karoonda East Murray
44	Moonee Valley City Council
45	City of Cockburn
46	Northern Rivers Regional Organisations of Councils
47	Brisbane City Council
48	City of Perth
49	Shire of Chapman Valley
50	Tiwi Islands Local Government
51	Murray Shire Council
52	The Nicol Group
53	Greater Shepparton City Council
54	Manningham City Council
55	Pittwater Council
56	The Tweed Group
57	Nambucca Shire Council
58	Shire of Gingin
59	Shire of Laverton Council
60	Berrigan Shire Council
61	Bathurst City Council
62	Richmond-Tweed Regional Library
63	Surf Coast Shire Council
64	Shire of Campaspe
65	Scarborough & Districts Progress Association Inc.
66	Shire of Yalgoo
67	Belyando Shire Council
68	Mr A.J. Brown

69	North Midlands Voluntary Regional Organisation of Councils
70	City of Wanneroo
71	Shire of Tambellup
72	Pilbara Regional Council
73	Hindmarsh Shire Council
74	City of Casey
75	Warrnambool City Council
76	Coomalie Community Government Council
77	City of Newcastle Council
78	Shire of Strathbogie
79	Penrith City Council
80	Western Australian Local Government Association
81	Derwent Valley Council
82	Noosa Council
83	Wide Bay Burnett Regional Organisation of Councils
84	Singleton Council
85	Wattle Range Council
86	Palmerston City Council
87	City of Whitehorse Council
88	Maroondah City Council
89	Corangamite Shire Council
90	Manilla Shire Council
91	City of Kalgoorlie-Boulder
92	Bayside City Council
93	Local Government Association of Queensland
94	City of Albury

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95	Blacktown City Council
96	Darebin City Council
97	Maclean Shire Council
98	City of Prospect
99	District Council of Grant
100	Hornsby Shire Council
101	Shire of Coolgardie
102	City of Armadale
103	Department of Transport and Regional Services
104	Leichhardt Council
105	Municipal Council of Kiama
106	Hume Shire Council
107	Kempsey Shire Council
108	Mr Alan Rossiter
109	Murrumbidgee Shire Council
110	Cooloola Shire Council
111	The Federated Municipal & Shire Council Employees' Union
112	Police Federation of Australia
113	North Sydney Council
114	Whyalla City Council
115	Mid Murray Council
116	Alexandrina Council
117	Devonport City Council
118	Moira Concerns Inc.
119	Cabonne Council
120	Severn Shire Council
121	Mr Geoff King

122	Tamworth City Council
123	Coolah Shire Council
124	Tweed Shire Council
125	Darwin City Council
126	Deniliquin Council
127	West Coast Council
128	Indigo Shire Council
129	Alice Springs Town Council
130	Cairns City Council
131	West Wimmera Shire Council
132	Cooma-Monaro Shire Council
133	Local Government Association of the Northern Territory
134	Katherine Town Council
135	Melbourne City Council
136	Roma Town Council
137	Queensland Government Department of Local Government and Planning
138	Banyule City Council
139	Maroochy Shire Council
140	Northern Grampians Shire Council
141	Australian Local Government Association
142	South East Queensland Regional Organisation of Councils
143	Baw Baw Shire Council
144	Mount Isa City Council
145	Diamantina Shire Council
146	Swan Hill Rural City Council
147	South East Local Government Association

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148	Knox City Council
149	Australian Services Union
150	Ms June Graham
151	Gold Coast City Council
152	Redland Shire Council
153	City of Boroondara
154	Central Coast Council
155	Northern Sydney Regional Organisation of Councils
156	Bundaberg City Council
157	Yarriambiack Shire Council
158	Bega Valley Shire Council
159	The Dennis Family Corporation
160	Shire of Dundas
161	Frankston City Council
162	Southern Sydney Regional Organisation of Councils
163	Cook Shire Council
164	City of Wagga Wagga
165	Coorong District Council
166	Riverina Eastern Regional Organisation of Councils
167	District Council of Streaky Bay
168	Shire of Wongan-Ballidu
169	Town and Country Planning Association
170	Western Sydney Regional Organisation of Councils
171	Central Highlands Council
172	Blue Mountains City Council
173	Inverell Shire Council

174	Aboriginal and Torres Strait Islander Commission, Northern Territory
175	Shire of Yilgarn
176	Victorian Minister of Local Government
177	Rosalie Shire Council
178	Department of Communications, Information Technology and the Arts
179	City of Sydney Council
180	Mulwaree Shire Council
181	Shoalhaven City Council
182	South West Group
183	Shire of Nannup
184	Port Phillip City Council
185	Parramatta City Council
186	Mudgee Shire Council
187	Bass Coast Shire Council
188	Campbelltown City Council
189	Townsville City Council
190	City of Whittlesea
191	Hawkesbury City Council
192	City of Salisbury
193	Parry Shire Council
194	King Island Council
195	Monash City Council
196	Moorabool Shire Council
197	Gatton Shire Council
198	Tennant Creek Town Council
199	Walcha Council
200	Barossa Council

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201	Maitland Shire Council
202	Environmental Research and Information Consortium Pty Ltd
203	Goulburn City Council
204	Mr O L W Bevan
205	City of Greater Bendigo
206	Hunter Region Organisation of Councils
207	Mildura Rural City Council
208	West Tamar Council
209	Pine Creek Community Government Council
210	Lismore City Council
211	City of Tea Tree Gully
212	Mornington Peninsula Shire Council
213	Leeton Shire Council
214	Eurobodalla Shire Council
215	Moree Plains Shire Council
216	NamoiROC
217	Gunnedah Shire Council
218	City of Melville
219	Shire of Manjimup
220	Griffith City Council
221	Ipswich City Council
222	Yass Shire Council
223	Local Government Association of South Australia
224	Victorian Local Governance Association
225	Ku-ring-gai Council
226	Local Government Association of NSW
227	Campbelltown City Council (Supplementary)

228	Mingenew Shire Council
229	Burwood Council
230	Shire of Bridgetown-Greenbushes
231	Dalby Town Council (Supplementary)
232	Penrith City Council (Supplementary)
233	City of Unley
234	Tatiara District Council
235	Naracoorte Lucindale Council
236	District Council of Loxton Waikerie
237	Cambooya Shire Council
238	City of Stonnington
239	Town of Victoria Park
240	Rockhampton City Council
241	Winton Shire Council
242	City of Bunbury
243	Delatite Shire
244	Urana Shire Council
245	City of Mitcham
246	Victorian Farmers Federation
247	Flinders Island Tourism Association
248	Kentish Council
249	Chinchilla Shire Council
250	Canterbury City Council
251	Richmond-Upper Clarence Regional Library
252	Mr Mark Drummond
253	National Farmers Federation
254	Northern Grampians Shire Council (Supplementary)
255	Caboolture Shire Council

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256	Hornsby Shire Council (Supplementary)
257	Department of Immigration and Multicultural Affairs
258	Combined Pensioners & Superannuants Association of Victoria Inc.
259	Gosford City Council
260	Department of Industry, Tourism and Resources
261	Mackay City Council
262	Tenterfield Shire Council
263	Moonee Valley City Council (Supplementary)
264	Sarina Shire Council
265	City of Dubbo Council
266	South Australian Government
267	Shire of Cardwell
268	Murray and Mallee Local Government Association
269	Dalrymple Shire Council
270	Coolah Shire Council (Supplementary)
271	City of Albany, Shire of Denmark, Shire of Plantagenet
272	Australian Local Government Women's Association Queensland Branch Inc
273	Northern Areas Council
274	Railway Technical Society of Australia
275	Nillumbik Shire Council
276	Shire of Manjimup
277	Redcliffe City Council
278	Department of the Treasury
279	Local Government Association of Tasmania

280	Yass Shire Council (Supplementary)
281	City of Norwood Payneham and St Peters
282	City of Greater Dandenong
283	City of Wodonga
284	Shire Council of Waggamba
285	City of Greater Geelong
286	City of Stirling
287	City of Onkaparinga
288	Boonah Shire Council
289	Latrobe Council
290	Coolah Shire Council (Supplementary)
291	Emerald Shire Council
292	District Council of Elliston
293	Local Government Managers Association
294	Municipal Association of Victoria
295	Barunga Manyallaluk Community Government Council
296	District Council of Grant (Supplementary)
297	City of Tea Tree Gully (Supplementary)
298	Department of Local Government and Regional Development
299	Urban Local Government Association of Queensland Inc
300	City of Victor Harbor
301	Clarence City Council
302	Shire of Quairading
303	Toowoomba City Council
304	Coffs Harbour City Council

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| 305 | Northern Territory Department of<br>Community Development, Sport and<br>Cultural Affairs |
| 306 | City of West Torrens   |
| 307 | City of Salisbury (Supplementary)  |
| 308 | Whyalla City Council (Supplementary)   |
| 309 | Palmerston City Council (Supplementary)  |
| 310 | Western Australian Local Government<br>Association (Supplementary)                       |
| 311 | National Farmers Federation<br>(Supplementary)   |
| 312 | Eyre Peninsula Local Government<br>Association   |
| 313 | Department of Transport and Regional<br>Services (Supplementary)                         |
| 314 | Mosman Municipal Council (Supplementary)   |
| 315 | City of Boroondara (Supplementary)   |
| 316 | Cradle Coast Authority (Supplementary)   |
| 317 | Local Government Managers Australia<br>(QLD)   |
| 318 | Manningham City Council (Supplementary)  |
| 319 | Wheatbelt Area Consultative Committee<br>(ACC) Inc                                       |
| 320 | Local Government Managers Australia (WA)   |
| 321 | Wyong Shire Council  |
| 322 | Local Government Association of<br>Queensland (Supplementary)                            |
| 323 | Local Government Managers Association<br>NSW   |
| 324 | National Competition Council   |
| 325 | Local Government Association of NSW<br>(Supplementary)                                   |

326	Southern Grampians Shire Council
327	Pyrenees Shire Council
328	Golden Plains Shire
329	Shire of Yalgoo (Supplementary)
330	Central Land Council
331	Mr Mark Drummond (Supplementary)
332	Planning Institute of Australia (PIA)
333	Commonwealth Grants Commission
334	Department of Transport and Regional Services (Supplementary)
335	Northern Land Council
336	Environment Australia
337	Department of Transport and Regional Services (Supplementary)
338	Council of the Shire of Jerilderie
339	Department of Agriculture Fisheries & Forestry Australia
340	Australian Local Government Association (Supplementary)
341	Sorell Council
342	Victoria Grants Commission
343	Mataranka Council
344	Mr Bill Watson
345	Vaucluse Progress Association (Supplementary)
346	Launceston City Council
347	Harden Shire Council
348	Hindmarsh Shire Council (Supplementary)
349	Aboriginal and Torres Strait Islander Commission Northern Territory (Supplementary)

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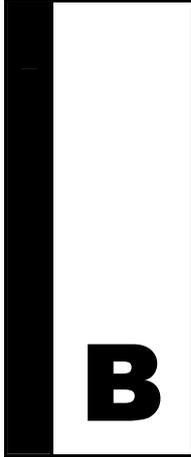
350	Aramac Shire Council
351	Department of Transport and Regional Services (Supplementary)
352	Australian Local Government Association (Supplementary)
353	Kilkivan Shire Council
354	Shire of Victoria Plains
355	Shire of Chapman Valley
356	Island Co-Ordinating Council
357	The Victorian group of Chief Executive Officers
358	Northern Territory Department of Community Development, Sport and Cultural Affairs (Supplementary)
359	Shire of Dalwallinu
360	Northern Sydney Regional Organisation of Councils (Supplementary)
361	Burnie City Council
362	Torres Strait Regional Authority
363	Local Government Association of Queensland (Supplementary)
364	Coomalie Community Government Council (Supplementary)
365	Western Australian Local Government Association (Supplementary)
366	City of Tea Tree Gully (Supplementary)
367	Hunter Region Organisation of Councils (Supplementary)
368	Commonwealth Grants Commission (Supplementary)
369	Rockhampton City Council (Supplementary)
370	Shire of Chittering

371	Northern Country Zone of the Western Australian Local Government Association
372	East Gippsland Shire Council
373	Northern Sydney Regional Organisation of Councils
374	Southern Sydney Regional Organisation of Councils (Supplementary)
375	Shoalhaven City Council (Supplementary)
376	Combined Pensioners & Superannuants Association of Victoria Inc. (Supplementary)
377	Toowoomba City Council (Supplementary)
378	Eurobodalla Shire Council (Supplementary)
379	Ms Felicity Senhenn
380	Local Government Managers Association (Supplementary)
381	Hume Shire Council (Supplementary)
382	Clarence River County Council (Supplementary)
383	Central West Regional Organisation of Councils
384	Municipal Association of Victoria (Supplementary)
385	Minister for Local Government South Australia
386	Mr Bruce Evans
387	Department of Transport and Regional Services (Supplementary)
388	WA Local Government Grants Commission
389	Victoria Grants Commission
390	Illawarra Region of Councils
391	Shire of Yalgoo (Supplementary)

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392	Queensland Local Government Grants Commission
393	Dungog Shire Council
394	Eurobodalla Shire Council
395	Maroondah City Council
396	Bathurst City Council
397	NSW Local Government Grants Commission
398	Eastern Region Mayors Group
399	Northern Territory Grants Commission
400	South Australian Local Government Grants Commission
401	Aboriginal and Torres Strait Islander Commission
402	Council for the National Interest Western Australia
403	Ms Alison Walpole
404	Northern Sydney Regional Organisation of Councils (Supplementary)
405	Railway Technical Society of Australia (Supplementary)
406	Chairman, Local Government and Planning Ministers' Council

<b>Exhibit No</b>	<b>Description</b>
1	'Foundations for the Future - Quality of Life in the City of Swan'. Provided by the City of Swan.
2	Property Council of Australia and Council of Capital City Lord Mayors, 'The Capital Cities & Australia's Future, 2000.' Provided by Perth City Council.
3	'Creating a Capital City Partnership: A draft proposal by the City of Perth'. Provided by Perth City Council.
4	'Trends in State Funding of Local Government'. Provided by the Victorian Department of Infrastructure.
5	'List of non-rateable properties'. Provided by Katherine Town Council.
6	'Indigenous Constitutional Strategy Northern Territory'. Provided by ATSIC NT.
7	'Increase in Revenue over 10 Years (1990/1 to 2000/1)'. Provided by City of Salisbury.
8	'Local Government Councils'. Provided by Ipswich City Council.
9	'Statistics in QLD'. Provided by Diamantina Shire Council.
10	'Presentation to Committee on local government and cost shifting'. Provided by Cairns City Council.
11	'SES and Funding: Advantages and Concerns'. Provided by Prof Stephen Farish.
12	'Cost shifting and the amalgamation experience'. Provided by Armidale Dumaresq Council.
13	Access Economics, 'The case for increased funding for local government'. Provided by City of Stonnington.
14	'Presentation to the Inquiry into Local Government and Cost Shifting'. Provided by Victorian Local Government Grants Commission.



## **Appendix B: List of Hearings and Witnesses**

**Tuesday, 6 August 2002 - Perth**

**City of Belmont**

Mr Neil Philip Hartley, Deputy Chief Executive Officer

**City of Perth**

Ms Noelene Rae Jennings, Director, Corporate Services

**Governance Systems Management Pty Ltd**

Mr Garry George Hunt, Chairman

**Shire of Gnowangerup Council**

Mr FB Ludovico, Chief Executive Officer

Cr Kenneth Ernest Pech, Councillor

Cr Janet Patricia Savage, Shire President

**Shire of Yalgoo**

Cr Donald Edward Anderson, Shire President

Mr Warren Olsen, Chief Executive Officer

**Western Australian Local Government Association**

Mr Wayne Francis Scheggia, Director - Policy

Mr Bruce Wittber, Policy Manager Governance

**Wednesday, 4 September 2002 - Canberra****Country Public Libraries Association of New South Wales**

Mr Peter Conlon, Former Secretary

Cr Susan Whelan, Deputy Chairperson

**Crookwell Shire Council**

Mr Brian Wilkinson, General Manager

**Department of Transport and Regional Services**

Ms Julia Evans, Acting Director, Review of Non-Road Transport Industry Programs

Mr Andrew Hrast, Director, Roads to Recovery Program

Mr Mike Mrdak, First Assistant Secretary, Territories and Local Government Division

Ms Diane Podlich, Assistant Director, Economic Policy, Territories and Local Government Division

Mr Geof Watts, Director, Economic Policy, Territories and Local Government

**National Farmers Federation**

Miss Denita Harris, Policy Manager & Industrial Relations Advocate

Mr Michael Potter, Policy Manager, Economics

**The Commonwealth Grants Commission**

Mr Alan Morris, Chairperson

Mr Malcolm Nicholas, A/g Secretary

**Yass Shire Council**

Mr Greg Smith, General Manager

**Thursday, 5 September 2002 - Canberra****Australian Local Government Association**

Mr Ian Chalmers, Chief Executive

Cr John Ross, President

**Monday, 7 October 2002 - Katherine****Aboriginal and Torres Strait Islander Commission Northern Territory**

Mr Franz Kriven, Acting Regional Manager

Mr Sidney Watts, Acting Executive Level Officer

**Burunga Manyallaluk Community Government Council**

Mr Dave Wormald, Town Clerk

**Coomalie Community Government Council**

Mr Terence Pailthorpe, Chief Executive Officer

**Katherine Town Council**

Mr Terry Buss, Chief Executive Officer

Mr James Forscutt, Lord Mayor

**Numbalwar Numburindi Community Government Council**

Mr Graham Maisey, Chief Executive Officer

**Pine Creek Community Government Council**

Mr Raymond Wooldridge, President

**Tuesday, 8 October 2002 - Darwin****Aboriginal and Torres Strait Islander Commission Northern Territory**

Ms Michelle Adams, A/State Policy Manager

**Darwin City Council**

Mr Peter Adamson, Lord Mayor

Mr Frank Crawley, Director Corporate Services

**Kardu Numida Council**

Mr Terrance Bullemore, Council Clerk

Mr Dale Seaniger, Deputy Council Clerk

**Northern Territory Department of Community Development, Sport and Cultural Affairs**

Mr David Coles, Executive Director, Local Government and Regional Development

Mr Michael Dillon, Chief Executive

**Palmerston City Council**

Ms Annette Burke, Mayor

Mr Rodney Donne, Chief Executive Officer

**Tiwi Islands Local Government**

Mr John Cleary, Chief Executive Officer

**Wednesday, 9 October 2002 - Adelaide****City of Salisbury**

Mr Peter Fairlie-Jones, Director Finance

Mr Stephen Hains, City Manager

**City of Tea Tree Gully**

Mr Nigel Graves, Executive Manager, Business Strategy

**District Council of Grant**

Mr Russell Peate, Chief Executive Officer

Mr Donald Pegler, Chairman

**District Council of Loxton Waikerie**

Ms Janice Cass, Mayor

**Northern Areas Council**

Mr Keith Hope, Community Projects Development Manager

**South Australian Government**

Hon Jay Weatherill MP, Minister for Local Government

**South Australian Local Government Grants Commission**

Mrs Jane Gascoigne, Executive Director

**South Australian Metropolitan CEOs Association**

Mr Steve Gawler, Vice President

**South Australian Regional Organisation of Councils**

Mr Ian McSparran, Member

**Tuesday, 5 November 2002 - Alice Springs****Alice Springs Town Council**

Mr Roger Bottrall, Acting Chief Executive Officer

Mr Eric Peterson, Corporate Services

**City of Boroondara**

Cr Meredith Butler, Mayor

Mr John Nevins, Works and Governance

**Local Government Association of Tasmania**

Cr Lynn Mason, President

**Manningham City Council**

Mr Geoff Draper, Director Community Services

Cr Geoff Gough, Mayor

**Mosman Municipal Council**

Mr Vivian May, General Manager

Cr David Strange, Mayor

**Tennant Creek Town Council**

Ald Jean Civitarese, Alderman

Mr Michael Dougall, Chief Executive Officer

Ald Sharon Kinraid, Alderman

Ald Barry Sharples, Deputy Mayor

**Friday, 6 December 2002 - Warrnambool****Corangamite Shire Council**

Mr Colin Hayman, Group Manager Corporate & Community Services

Mr Peter Johnston, Chief Executive Officer

**Glenelg Shire Council**

Mr John Keller, Acting Chief Executive Officer

**Hindmarsh Shire Council**

Mr Neil Jacobs, Chief Executive Officer

**Horsham Shire Council**

Mr Anthony Bawden, General Manager, Corporate Services and Economic Development

**Moorabool Shire Council**

Mr Greg Jakob, Director Corporate Services

**Pyrenees Shire Council**

Mr Stephen Cornish, Chief Executive Officer

Mr Geoffrey Gray, Manager Economic Development & Tourism

**Southern Grampians Shire Council**

Mr Graham Mostyn, Chief Executive Officer

**Warrnambool City Council**

Mr Brune Anson, Director Corporate Services

Mr Lindsay Merritt, Chief Executive

**Tuesday, 18 February 2003 - Hobart****Individuals**

Ms June Graham

**Cradle Coast Authority**

Mr Roger Jaensch, Chief Executive Officer

**Derwent Valley Council**

Mr Stephen Mackay, General Manager

**Devonport City Council**

Mr David Sales, General Manager

**George Town Council**

Ms Ngaire McCrindle, General Manager

**Glenorchy City Council**

Mr Frank Pearce, General Manager

**Hobart City Council**

Mr Gary Randall, Manager Strategic and Executive Support

**Local Government Association of Tasmania**

Mr Allan Garcia, Manager Policy

Cr Lynn Mason, President

**Sorell Council**

Mr Brian Inches, General Manager

**Wednesday, 19 February 2003 - Box Hill****City of Ballarat**

Mr John McLean, Chief Executive Officer

**City of Boroondara**

Mr Peter Johnstone, Chief Executive Officer

**City of Greater Dandenong**

Mr Warwick Heine, Chief Executive Officer

**City of Port Phillip**

Mr David Spokes, Chief Executive Officer

**City of Stonnington**

Mr Hadley Sides, Chief Executive Officer

**City of Whitehorse Council**

Cr Robert Chong OAM, Mayor

**Glenelg Shire Council**

Ms Jennifer Tod, Chief Executive Officer

**Indigo Shire Council**

Mr John Costello, Chief Executive Officer

**Knox City Council**

Mr Graeme Emonson, Chief Executive Officer

**Manningham City Council**

Mr John Bennie, Chief Executive Officer

Cr Geoff Gough, Mayor

**Maroondah City Council**

Mr Nick Foa, Director Community and Organisational Development

**Monash City Council**

Mr David Conran, Chief Executive Officer

**Municipal Association of Victoria**

Mr Troy Edwards, Senior Policy Adviser

Mr Rob Spence, Chief Executive Officer

**Nillumbik Shire Council**

Ms Catherine Dale, Chief Executive Officer

**Strathbogie Shire Council**

Mr Kevin Hannagan, Chief Executive Officer

**Victorian Local Governance Association**

Mr Andrew Rowe, Chief Executive Officer

**Whitehorse City Council**

Mr Stephen Wright, Acting Chief Executive Officer

**Tuesday, 11 March 2003 - Noosa****Caboolture Shire Council**

Mr Peter Scott, Manager Financial Services

**Caloundra City Council**

Mr Stephen Hoffmann, Chief Financial Officer

**Cooloola Shire Council**

Mr Russell Faulkner, Chief Executive Officer

Mr Kenneth Mason, Finance Manager

Cr Mick Vernardos, Mayor

**Eastern Downs Regional Organisation of Councils**

Mr John Hasted, Chief Executive Officer

**Gatton Shire Council**

Cr James McDonald, Mayor

**Gold Coast City Council**

Mr Dale Dickson, Acting Chief Executive Officer

**Ipswich City Council**

Cr Paul Tully

**Local Government Association of Queensland**

Mr Greg Hallam PSM, Executive Director

Cr Noel Playford, President

**Local Government Managers Australia (QLD)**

Mr Ray Currie, President

Mr Gary Stevenson, Divisional Council

**Noosa Council**

Cr Bob Abbot, Mayor

**Redcliffe City Council**

Mr Bob Holmes, Chief Executive Officer

**Toowoomba City Council**

Cr Peter Wood, Deputy Mayor

**Wednesday, 12 March 2003 - Longreach****Aramac Shire Council**

Mr Gary Peoples, Mayor

**Barcaldine Shire Council**

Mr Mark Crawley, Chief Executive Officer

**Diamantina Shire Council**

Mr John Perry, Chief Executive Officer

**Flinders Shire Council**

Mr Brendan McNamara, Mayor

**Ilfracombe Shire Council**

Mr Vaughn Becker, Chief Executive Officer

**Isisford Shire**

Mr Joe Owens, Mayor

**Longreach Shire Council**

Mrs Joan Moloney, Mayor

Mr Robert O'Brien, Chief Executive Officer

**Richmond Shire Council**

Mr John Scarce, Chief Executive Officer

**Tambo Shire Council**

Cr Dougal Davidson, Mayor

Mr Kenneth Timms, Chief Executive Officer

**Winton Shire Council**

Mr Bob Hoogland, Chief Executive Officer

**Thursday, 13 March 2003 - Townsville****Burdekin Shire Council**

Cr John Woods, Mayor

**Cairns City Council**

Mr Kevin Byrne, Mayor

Mr Dennis Quick, Executive Officer

**Charters Towers City Council**

Mr John Wehlow, Chief Executive Officer

**Dalrymple Shire Council**

Mr James Gott, Chief Executive Officer

**Mackay City Council**

Cr Julie Boyd, Mayor

Mr Ken Gouldthorp, Chief Executive Officer

**Shire of Cardwell**

Mr Malcolm Mallyon, Chief Executive Officer

**Thuringowa City Council**

Cr Les Tyrell, Mayor

Ms Lyn Russell, Chief Executive Officer

**Townsville City Council**

Cr Tony Mooney, Mayor

**Monday, 28 April 2003 - Sydney****Individuals**

Professor Stephen Farish

**Canterbury City Council**

Mr Jim Montague, General Manager

**City of Ryde**

Mr Michael McMahon, Chief Executive Officer

**Hornsby Shire Council**

Mr Gordon Truman, Executive Manager, Strategy

**Hunters Hill Council**

Mr Barry Smith, General Manager

**Lane Cove Council**

Cr John May, Mayor

Mr Eric Armstrong, Group Manager, Planning and Support Services

**Lgov NSW**

Mr Shaun McBride, Finance and Economic Policy

**Local Government Managers Association NSW**

Mr Cliff Haynes, President

**North Sydney Council**

Ms Penny Holloway, General Manager

**Northern Sydney Regional Organisation of Councils**

Mr Ross Jones, Executive Director

**Southern Sydney Regional Organisation of Councils**

Ms Melissa Gibbs, Executive Director

**Tweed Shire Council**

Dr John Griffin, General Manager

**Western Sydney Regional Organisation of Councils**

Mr Alex Gooding, Executive Director

**Tuesday, 29 April 2003 - Barraba****Armidale Dumaresq Council**

Mr Shane Burns, General Manager

Mr Brian Chetwynd, Mayor

**Barraba Shire Council**

Mrs Shirley Close, Mayor

Mr Stephen Wilton, General Manager

**Guyra Shire Council**

Mr Andrew Johnson, Director of Finance and Administration

**Inverell Shire Council**

Mr Barry Johnston, Mayor

**Manilla Shire Council**

Cr Cheryl Randall, Mayor

**Moree Plains Shire Council**

Mr David Aber, General Manager

**New England North West Area Consultative Committee**

Miss Joanne Stead, Project Officer

**Parry Shire Council**

Mr Glenn Inglis, General Manager

**Tamworth City Council**

Cr James Treloar, Mayor

**Tenterfield Shire Council**

Mr Toby Smith, Councillor

Cr Lucy Sullivan, Mayor

**Tuesday, 29 April 2003 - Newcastle****City of Newcastle Council**

Ms Janet Dore, General Manager

**Dungog Shire Council**

Cr Steve Low, Mayor

**Gosford City Council**

Mr Chris Gallagher, Director Finance and Corporate Services

**Lake Macquarie City Council**

Mr Kenneth Holt, General Manager

**Hunter Region Organisation of Councils**

Dr Barbara Penson, Chief Executive Officer

**Murrurundi Shire Council**

Mr John Griffiths, General Manager

**Pristine Waters Council**

Ms Jacqueline Brown, General Manager

Cr Peter Williamson, Mayor

**Wyong Shire Council**

Mr John Burgess, Director, Corporate and Community Services

Mr Robert Graham, Councillor Deputy Mayor

**Friday, 30 May 2003 - Moruya****Bega Valley Shire Council**

Mr David Hede, Mayor

Mr David Jesson, General Manager

**Bombala Council**

Mr David Rawlings, General Manager

**Eurobodalla Shire Council**

Mrs Pamela Green, Mayor

Mr James Levy, General Manager

**Mulwaree Shire Council**

Mr Robert Mowle, General Manager

Mr Paul Stephenson, Mayor

**Shoalhaven City Council**

Mr Russ Pigg, General Manager

**Tumut Shire Council**

Cr Geoff Pritchard, Mayor

**Yarrowlumla Shire Council**

Mr Robert Morgan, General Manager

**Friday, 27 June 2003 - Canberra****Australian Local Government Association**

Cr Mike Montgomery, President

Mr Richard Neeves, Director, Economic & IT Policy

Mr John Pritchard, Executive Director, Policy and Research

**Australian Services Union**

Mr Greg McLean, Assistant National Secretary

**City of Port Phillip**

Mr David Spokes, Chief Executive Officer

**City of Stonnington**

Mr Hadley Sides, Chief Executive Officer

**Commonwealth Grants Commission**

Mr Dermot Doherty, Acting Assistant Secretary

Mr Malcolm Nicholas, Acting Secretary

**Department of the Treasury**

Ms Laurene Edsor, Senior Advisor, Tax Design Division

Ms Jan Harris, General Manager, Commonwealth State Relations

**Department of Transport and Regional Services**

Mr Mike Mrdak, First Assistant Secretary, Territories and Local Government Division

Mr Geof Watts, Director, Economic Policy, Territories and Local Government

**Local Government Managers Association**

Mr Lindsay Delahaunty, President

Mr Trevor Starr, Immediate Past President

**Northern Territory Grants Commission**

Mr Robert Beadman, Chairman

**NSW Local Government Grants Commission**

Emeritus Professor Maurice Daly, Chairperson

Mr Bruce Wright, Executive Officer

**Planning Institute of Australia (PIA)**

Ms Di Jay, Chief Executive Officer

**Police Federation of Australia**

Mr Mark Burgess, Chief Executive Officer

**Queensland Government Department of Local Government and Planning**

Mr Peter Woolley, Manager, Local Government Funding Division

**South Australian Local Government Grants Commission**

Mrs Jane Gascoigne, Executive Director

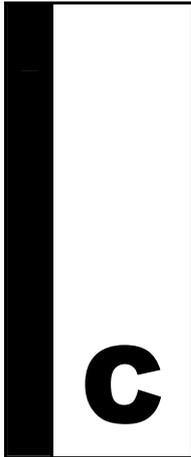
Mr Malcolm Germein, Chairman

**Victoria Grants Commission**

Mrs Joanne Anderson, Member

Mr John Lester, Chairman

Mr Colin Morrison, Executive Officer



## Appendix C: Cost Shifting Examples

Description	State	Source	Approximate cost to local government
<i>Withdrawal or reduction of financial support</i>			
<b>• Health and Welfare</b>			
Many councils financially support the housing, travel, residential accommodation and salary of both doctors and dentists	WA	WALGA, Sub No. 310	between \$60 000 and \$100 000 p.a. to WA councils
Support for rural doctor/hospital funding.	QLD	Caboolture Shire Council, Sub No. 255	No figures provided
HACC – the State and Commonwealth governments have failed to keep funding apace with service costs and increases in demand.	VIC	Shire of Campaspe, Sub No. 64	\$556,318 (or 27% of total costs in 2001/02)
Maternal and child health – unit cost per hour is grossly under funded by the State government.	VIC	City of Casey, Sub No. 74	\$290,000 p.a.
Aged and disability services – significant funding cuts by the State government have impacted considerably on local government budgets.	VIC	City of Stonnington, Sub No.238	Funding reduced by 21% between 1994 and 1999
Long day and occasional childcare - State and Federal government funding has been reduced or withdrawn.	NSW	Gosford City Council, Sub No. 259	\$40,000 p.a. towards a full-time Childcare Coordinator
		Wyong Shire Council, Sub No. 321	\$400,000.00 operating loss.
Senior Citizen Centre were transferred to local government in the 1960's/70's with heavy State and Federal government funding, however, this has reduced leaving councils to fill the fiscal gap.	SA	City of Unley, Sub No.233	\$258,900 p.a.
Childcare centres have costly compliance standards.	NT	Darwin City Council, Sub No. 125	No figures provided

Description	State	Source	Approximate cost to local government
Aged care – compliance costs have increased significantly due to increased requirements on data collection and administration.	NT	Tenant Creek Town Council, Sub No. 198	No figures provided
<b>• Valuations</b>			
Legislation requires local government to use the Valuer General's Office to obtain its valuations for rating purposes. As of July 2003, the State government withdrew from its previous provision of a 50% subsidy towards the cost of this service.	WA	Letter from Director Policy, WALGA to Chairman, House Economics Committee, dated 19 June 2003.	\$3 million state wide. \$100 000 for one council per revaluation undertaken every three years.
<b>• Education</b>			
Council provides premises free of charge to the Nannup Pre-School and other services that operate in the town. The State Education Department has refused to contribute to the upkeep and maintenance of the premises, yet provides an educational service from the facility.	WA	Shire of Nannup, Sub No. 183	No figures provided
Car park construction at education facility		Shire of Manjimup, Sub No. 219	\$10,000 in 2001-02
School parking facilities - Council is increasingly being held responsible for carrying out works to increase parking facilities around state schools in response to community concern over safety and amenity.	VIC	City of Whittlesea Council, Sub No. 190	\$150,000 one-off
School crossing supervisors - continued community expectations and decreased state government funding.	VIC	City of Whittlesea Council, Sub No. 190	\$198,416 in 2001-02
<b>• Security and Safety</b>			
Video surveillance, security patrols	WA	City of City of Perth, Sub No. 48 City of Wanneroo, Sub No. 70	\$922,000 p.a. \$750,000 p.a.
Night patrols as well as the installation of surveillance devices due to dissatisfaction with police services.	QLD	Ipswich Shire Council, Sub No. 221	\$342,151 p.a.
Crime Prevention Program	SA	City of Whyalla, Sub No.114	\$1.4 million budget for council's crime prevention program was cut by \$800,000 to \$600,000.
Crime and safety programs and officers	NSW	City of Albury, Sub No.94	\$50,000 p.a.
Aboriginal Community Police Officers Program including the provision of vehicles as well as in some cases office space and accommodation.	NT	Coomalie Community Government Council, Sub No. 76 and ALGA letter of 22 July 2003	Local government in the NT contributes an estimated at \$850,000 to this program at \$34,000 per council.

Description	State	Source	Approximate cost to local government
Crime, safety, graffiti and drug programs	VIC	City of Greater Geelong, Sub No. 285	\$500,000.
<b>• Tourist Bureaus</b>			
The withdrawal of State support for tourist bureaus has required local government to provide direct and indirect support to help ensure their continued existence.	WA	Shire of Manjimup, Sub No. 219	\$20,000 outlay in 2001-02
<b>• Mobile Telephone Towers</b>			
Councils were requested to contribute \$20 000 per site for mobile towers. Where councils were unable to contribute, they were not built.	WA	City of Wanneroo, Sub No. 70, Shire of Nannup, Sub No. 183	\$42,000. outlay in 2001-02
<b>• Black Spot Funding</b>			
Ongoing State and Federal funding is reducing.	VIC	Moonee Valley City Council, Sub No. 263	\$145,000
<b>• Housing</b>			
New State government housing initiatives such as the Social Housing Innovation Project are costing local government considerably in relation to land provision, rezoning as well as the preparation of legal documentation.	VIC	Boroondara City Council, Sub No. 153	No figures provided.
All housing and maintenance on Indigenous Deed of Grant In-Trust Communities is undertaken by councils despite the fact that it is not funded in any grant methodologies.	QLD	Torres Strait Regional Authority/ Bamaga Community Council, Sub No. 362	No figures provided.
<b>• Library Funding</b>			
State government has increasingly reduced its level of funding to libraries.	NSW	Deniliquin Shire Council, Sub No. 126	Library subsidy decreased from \$26,200 in 1994 to 22,800 in 2002.
	VIC	Moonee Valley City Council, Sub No. 263	\$1,000,000 p.a.
	SA	City of Whyalla, Sub No.114	Funding has moved from a 50/50 partnership to 25/75, with the greater share being carried by local government.
	WA	City of Belmont, Sub No. 12	Council now contributes 75% of library running costs whilst the State currently only provides 25% of total costs.
	NT	Darwin City Council, Official Hansard, 8 October 2002, Darwin, p.233.	Funding reduced by \$350,000 in the last three years.

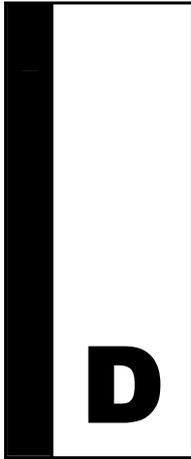
Description	State	Source	Approximate cost to local government
<b>• Bus Shelters</b>			
A joint funding program in the 1980s. Now some councils contribute 100% of the costs.	SA	City of Salisbury, Sub No.192	\$40,000 p.a.
<b>• Flood Mitigation</b>			
Ratio of funding has changed from 2:2:1 to 1:1:1 (Cth:SG:LG)	NSW	Shire of Gunnedah, Sub No. 217; Parramatta City Council, Email dated 4 September 2003.	No figures provided.
<b>• Power, Electricity and Water Provision</b>			
Councils in the NT provide water, sewerage and electricity on behalf of the Power and Water Authority. However, the contractual arrangement which compensates councils does not take into account costs such as recruitment and housing of staff.	NT	Local Government Association of the Northern Territory, Sub No. 133 and ALGA letter of 22 July 2003	ALGA estimated that the cost to NT councils, is somewhere in the order of \$125,000 every two years (50 councils at \$5,000)
<b>• Centrelink and Postal Services</b>			
Local government provides staff and shop fronts.	NT	Tiwi Islands Council, Sub No.50, Mataranka Council, Sub No. 343, and ALGA letter of 22 July 2003	50 councils at \$20,000, making overall contributions \$1m
<b>• Environmental Programs</b>			
A number of programs such as Coast Care, Water Works and River Watch are only funded in the short term leaving the fiscal burden to local government.	TAS	Central Coast Council, Sub No. 154	No figures provided.
<b>Transfer of assets</b>			
<b>• Roads</b>			
State government handed over responsibility for regional roads to local government. The State subsequently provided on an annual basis, funding to councils to undertake maintenance. However, the funding has become inadequate. State government has no obligation to notify, seek the agreement of, or compensate councils when transferring a crown road to local government.	NSW	Guyra Shire Council, Sub No. 27  Singleton Council, Sub No. 84; Dalrymple Shire Council, Sub No. 269; Riverina Eastern Regional Organisation of Councils, Sub No. 166	\$50,000 p.a. in addition to a once off cost of \$1,000,000.  No figures provided
<b>• Airports</b>			
Commonwealth aerodromes were transferred to local government with initial financial incentives. The choice for councils was one of either accepting the opportunity or losing the service to the community.	QLD	Diamantina Shire Council, Sub No. 145.	\$300,000 p.a. in annual depreciation + \$1 million upgrade

Description	State	Source	Approximate cost to local government
Infrastructure was handed over to local government without adequate commensurate funding being provided for its maintenance/upkeep.	TAS	Flinders Island Council, Official Hansard, 18 February 2003, Hobart.	Council is forced to spend 20% of its rates on maintaining its airport.
Airstrip maintenance responsibility has been devolving to local government. About 30 councils pay for maintenance and reporting. For six months of year, during flooding, airstrips are the only form of access ins some parts of the NT.	NT	Tiwi Islands, Official Hansard, 8 October 2002, Darwin and Barunga Manyallaluk Community Government Council, Sub No: 295	Tiwi Islands council is supervising 4 airstrips. Landing charges recover some costs.
<b>Concessions and rebates provided without compensation</b>			
<b>• Pensioner Rebate Scheme</b>			
The scheme was originally fully funded by the NSW government, however, Lgov NSW claimed this was cut back with the introduction of FAGs. Local government pays approximately 50%.	NSW	Tamworth Shire Council, Official Hansard, Barraba, 29 April 2003, p. 773;	\$700,000 pa of an total council income of \$13 million.
		Campbelltown City Council, Sub No. 188;	\$1-2 million p.a.
		Tweed Shire Council, Sub No. 124	\$725,000 or 3.5% of rate revenue.
Councils are forced to administer the scheme for the Queensland government, with no commission paid to local government for undertaking this service.	QLD	Caboolture Shire Council, Sub No. 255	\$1,650,000 outlay in 2001-02
'... a nightmare for small councils to administer. ... where a staff member covers many jobs'	WA	Wheatbelt Area Consultative Committee, Sub No. 319.	No figures provided
<b>• Non-Rateable Land</b>			
There is a considerable amount of Federal and State government owned land which is exempt from local government rates.	NSW	NSROC, Official Hansard, Sydney, 28 April, 2003, p.713.	In North Sydney there are 75 blocks of State owned land, with a total rateable value in excess of \$65 million as well as 17 Federal government owned properties worth in excess of \$58 million which are currently exempt from local government rates.
Rate exemption provisions of the Local Government Act in WA, particularly in the case of housing stocks being placed in the control and management of charitable bodies such as incorporated community housing groups.	WA	City of Armadale, Sub. No. 102	In this council's case, rate exemptions total about \$60,000 p.a. or 0.4% of its total rate income.
Rate exemptions on State and Federal land, particularly in the case of national parks.	QLD	Diamantina Shire Council, Official Hansard, Longreach, 12 March 2003.	Council notes that 11,000 sq. km of land has been declared national park since 1991, which has reduced council revenues by 12%.

Description	State	Source	Approximate cost to local government
<b><i>Increased regulatory and compliance requirements</i></b>			
• <b>Food Regulation</b> – inspection requirements	NSW	Newcastle City Council, Sub No.77	\$60,000 p.a.
• <b>State of the Environment Reports</b> - requiring data gathering and mapping	NSW	Eurobodalla Shire Council, Sub No. 394	\$37,000 p.a.
• <b>Threatened Species Conservation Act 1995 (State) and The Environment Protection and Biodiversity Protection Act 2000 (Federal)</b> – surveys and studies	NSW	Blacktown City Council, Sub No. 96	No figures provided
		Eurobodalla Shire Council, Sub No. 394	\$5,000 p.a.
• <b>Privacy Legislation</b> – Compliance costs associated with the implementation of this Act are considerable for local government as many councils are required to develop audit, policy and compliance statements	NSW	City of Albury, Sub No.94	\$5,000.p.a.
• <b>Companion Animals Act</b> – Registration fees provided for by this legislation are frequently far from sufficient to cover the cost of enforcement and control of companion animals in the community	NSW	Comma-Monaro Shire Council, Sub No. 132	\$50,000 p.a.
• <b>NSW Fire Brigade Contribution</b> – required to contribute towards the cost of bush fire services in the council area together with the costs associated with supporting the Sydney based bureaucracy of the Rural Fire Service	NSW	Guyra Shire Council, Sub No. 27	\$30,000 p.a.
• <b>Biodiversity policy and regulation</b>	NSW	Eurobodalla Shire Council, Sub No. 394	NRM planning \$25,000 p.a.
• <b>Coastal management</b> to deal with nation's population growth over next 20 years to coastal zones, NSW Coastal Protection Package	NSW	Eurobodalla Shire Council, Sub No. 394	\$60,000 p.a.
• <b>Accounting Requirements</b> – required to comply with new accounting/ auditing regulations, including funded depreciation	QLD	Sarina Shire Council, Sub No. 264	\$32,000 p.a.
• <b>Environmental legislation</b> – statutory requirement on local government that closed landfills are remediated such that no environmental harm is caused	QLD	Caboolture Shire Council, Sub No. 255	\$1,000,000 for 15 years.
• <b>Integrated Planning Act</b> – to develop IPA compliant Planning Schemes and adopt planning assessment practices	QLD	Maroochy Shire Council, Sub No. 139	\$150,000 p.a.

Description	State	Source	Approximate cost to local government
<ul style="list-style-type: none"> <li>• <b>Environmental Protection legislation</b> - imposed conditions on landfill sites, for instance, councils forced to employ a waste management officer</li> </ul>	WA	Shire of Manjimup, Sub No. 219	\$105,000 p.a.
<ul style="list-style-type: none"> <li>• <b>Health (Air Handling and Water Systems) Regulations 1994</b></li> </ul>	WA	City of Cockburn, Sub No. 45	\$15,250 p.a.
<ul style="list-style-type: none"> <li>• <b>Fire and Emergency Services Levy</b> - local governments must collect the levy on behalf of the State. While a minor commission is intended to be paid, the amount will not cover the additional costs incurred by local governments</li> </ul>	WA	Shire of Manjimup, Sub No. 219	\$47,000 p.a.
<ul style="list-style-type: none"> <li>• <b>Town Planning</b> – must now review their development plans every 3 years instead of every 7 years</li> </ul>	SA	City of Unley, Sub No.233	\$80,000 p.a.
<ul style="list-style-type: none"> <li>• <b>Environmental Protection Act</b> - higher standards imposed on waste management and landfill sites</li> </ul>	SA	City of Unley, Sub No.233	Cost has doubled over the past 10 years – now at \$2,200,000
<ul style="list-style-type: none"> <li>• <b>Disability Discrimination Act</b> – public buildings must comply with Federal DDA standards</li> </ul>	SA	City of Unley, Sub No.233	\$50,000 p.a.
<ul style="list-style-type: none"> <li>• <b>GST Implementation Costs</b> – set-up and compliance costs.</li> </ul>	SA	City of Whyalla, Sub No.114	No figures provided
<ul style="list-style-type: none"> <li>• <b>GST Implementation Costs</b> – Set-up and compliance costs</li> </ul>	VIC	Maroondah City Council, Sub No. 88	\$18,000 initial set up cost in addition to \$30,000pa ongoing cost.
<ul style="list-style-type: none"> <li>• <b>Disability Discrimination Act</b> – implementation and compliance costs</li> </ul>	VIC	Maroondah City Council, Sub No. 88	\$50,000 p.a.
<ul style="list-style-type: none"> <li>• <b>Planning Regulation</b> – policy, regulatory and advisory roles on land use planning. However, prior to the introduction of this levy, the total cost was met by the State consolidated revenue</li> </ul>	TAS	Local Government Association of Tasmania, Sub No. 279	\$2,700,000 total TAS local government outlay in 2000-01.
<ul style="list-style-type: none"> <li>• <b>Water Monitoring</b> – sampling and testing of water was previously undertaken by the State government however this role and its associated costs have been devolved onto local government</li> </ul>	TAS	Local Government Association of Tasmania, Sub No. 279	No figures provided
<b>Failure to provide for indexation of fees and charges</b>			
<ul style="list-style-type: none"> <li>• <b>Swimming pool inspections</b> – fee set at \$50 per inspection when introduced 10 years ago</li> </ul>	WA	WALGA, Sub No. 310	\$5000 to \$20 000 per council
<ul style="list-style-type: none"> <li>• <b>Transport and motor vehicle licensing</b> – commission does not cover cost</li> </ul>	WA	WALGA, Sub No. 310	Approx. \$20 000 p.a.

Description	State	Source	Approximate cost to local government
<ul style="list-style-type: none"> <li>• <b>Building licensing fees</b> – fee structure is based on a percentage of the value of works but there have been significant cost increases</li> </ul>	WA	City of Belmont, Sub No. 12	Capped at \$40 since 1995
<ul style="list-style-type: none"> <li>• <b>Building</b> – demolition report fee</li> </ul>	VIC	Boroondara City Council, Sub No. 153.	Capped at \$50 which is insufficient
<ul style="list-style-type: none"> <li>• <b>Statutory Planning Fee</b> –does not cover real costs</li> </ul>	VIC	Boroondara City Council, Official Hansard, Alice Springs, 5 Nov 2002.	No figures provided
<ul style="list-style-type: none"> <li>• <b>Town Planning</b> – fees council may levy are inadequate</li> </ul>	SA	Mitcham Council. Sub No.245	Currently the council's income in this area is \$235,000 whilst costs are \$819,000.
<ul style="list-style-type: none"> <li>• <b>Development Application</b> – fees do not take account of the real costs associated with the processing of applications</li> </ul>	NSW	Leichardt Council, Sub No. 104	Rockdale City Council, increased cost to council at around \$200,000 p.a.
<ul style="list-style-type: none"> <li>• <b>Environmental Protection Functions</b> – fee structure does not represent the real cost</li> </ul>	NSW	Goulburn City Council, Sub No. 203	No figures provided



## **Appendix D: History of the Interstate Distribution of Local Roads Grants<sup>1</sup>**

The history of State shares of road grants dates back to 1923. According to the 1986 *Report of the Inquiry into the Distribution of Federal Road Grants* (the 'Cameron Report') 'The 1923 Commonwealth road grants legislation allocated grants on the basis of three-fifths according to population and two-fifths according to area.' In 1959, reliable data on vehicle registrations became available and Commonwealth legislation divided the funds between the States on the basis of one-third population, one-third area and one-third vehicles on register. However, this formula did not apply to Tasmania, which received 5 per cent of the grants (pp. 48–49 of the Cameron Report).

Annual Federal grants to Local Government, first made in 1974, were grants for general purposes. The *Road Grants Act 1974* provided grants to the States for urban arterial, rural arterial, urban local roads and rural local road projects and some of these grants were passed on to Local Government. The grants were made following a 1973 Commonwealth Bureau of Roads *Report on Roads in Australia*, which had examined the needs of the whole road system.

The report suggested that the 'distribution of grants between the States [be] determined on the one hand by the distribution of the warranted and feasible road program and on the other, by taxable capacity as indicated by numbers of motor vehicles and people and by incomes per capita' (p. 210). In other words, shares would be determined in part by actual needs (as modified by what was actually feasible in the time frame) and in part by future expenditure effort, with States being required to provide some matching

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<sup>1</sup> Department of Transport and Regional Services, Submission Number 337.

funds. A special equalisation grant was suggested for Tasmania as it had 'the lowest level of income per head and the highest road construction and maintenance costs' (p. 211).

Federal grants for local roads continued to grow over the next decade, and as they became an integral part of council budgets, councils sought greater clarity, predictability and control over the grants. This came in the 1980s as agreement was reached with the States on principles for the intrastate distribution of these grants to Local Government.

One issue that blurred transparency of the local road grants was the fact that State road authorities were responsible for some local roads mainly those in unincorporated areas. The Cameron Report noted that 'Many local roads are the direct responsibility of State governments, mainly in areas not incorporated as local authorities' (p. 25). According to this report, the State was responsible for 2.5 per cent of the local road system in New South Wales, 5.1 per cent in Victoria, 12.2 per cent in Queensland, none in Western Australia, 12.1 per cent in South Australia and 6.1 per cent in Tasmania (p. 26).

The Report noted 'In all except one of the States a significant amount of local road grants is allocated to State road authorities. In two of the States, this is about one third of the total' (p. 27). The amounts retained by State governments for local roads under their control were negotiated privately between the States and State Local Government Associations (p. 27). Therefore, Local Government shares were not separately identified in Federal departmental annual reports.

In 1987, the Bureau of Transport Economics prepared a report called *Assessment of the Australian Road System* (No.61, 1987). The report noted that 'The distribution of Commonwealth Local Government road grants among local authorities and States is based on formulae which broadly take into account, inter alia, both the population and road lengths of a particular area' (p. 137). As an example of this, from 1977-78 through to 1990-91, South Australia's share of the local road grants across a number of Federal road programs ranged between 7.5 per cent and 8.1 per cent of the total local roads grants. In 1990-91, it was \$24.3 million or 7.5 per cent of a total local road grant of \$323.8 million.

On 29 May 1991, the Federal Government introduced a Bill under which local road grants would be separately identified and paid under the *Local Government (Financial Assistance) Act 1986*. The Second Reading Speech said the Local Government (Financial Assistance) Amendment Bill 1991 implemented the Special Premiers' Conference decision 'that funds for local roads would be untied and paid to Local Governments, or to State

Governments where they are responsible for local roads, via general purpose grants.'

Federal Budget Paper No.1 for 1991–92 (p. 3-267) records that 'Heads of Government agreed at the October 1990 Special Premiers' Conference that Commonwealth funds for local roads be untied and paid at the same real level. Interim arrangements decided in April 1991, provide for a portion of these funds to be paid to the States from 1991–92 as grants in lieu of funding for local roads under their direct control (eg those in national parks and unincorporated areas).'

In 1991–92, \$39.4 million was budgeted in general revenue assistance to the States for local roads maintained by the States (p. 3-266). Payments to the States were as follows: \$4.543 million in New South Wales; \$2.653 million in Victoria; \$6.019 million in Queensland; \$8.771 million in South Australia; \$5.193 million in Tasmania; and \$12.205 million in Northern Territory (Federal Budget paper No. 4, p. A-42). This led to a commensurate reduction in the amount available for Local Government financial assistance grants for local roads in each State except Western Australia. In the case of South Australia, its grant was reduced to \$17.7 million or 5.85% of the local roads funds provided under the *Local Government (Financial Assistance) Act 1986* in 1991–92.

There were some subsequent changes that enlarged the national local roads grant pool:

- In 1992–93, the Tasmanian Government restored all of its local road grants to councils under the financial assistance grants. This is one reason why Local Government in Tasmania has a higher than expected share of the local road grants.
- In 1992–93, some of the grants in the Northern Territory (mostly for unincorporated Aboriginal councils) were returned to the local road financial assistance grants.
- In 1995–96, local road grants were paid to the ACT Government for the first time under the *Local Government (Financial Assistance) Act 1995*.

These changes had no effect on the entitlements or payments for the other States under the Act but did dilute their share of the local roads grant pool. For instance, the impact of these changes caused South Australia's share to fall from 5.85% to 5.68% and finally to 5.5%.

In 1993–94, the payments to the States for local roads maintained by the States were untied and were subsumed within general purpose payments to the States.

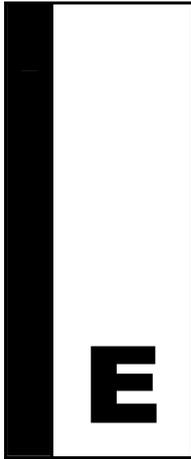
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## **Appendix E: Main Findings from the CGC Review<sup>1</sup>**

### **Effectiveness of the Current Arrangements, Including the National Principles**

The Act aims to provide financial assistance for local government to meet three underlying intentions:

- To provide all Local Government Bodies (LGBs) with at least a minimum level of assistance;
- To provide funding to contribute to the costs faced by LGBs in maintaining their local roads; and
- To provide relatively greater financial assistance to those LGBs which are relatively more disadvantaged compared with other LGBs because they face greater costs in providing services or because their ability to raise revenue is more limited.

In broad terms, the current arrangements have led to a distribution of funds in line with these intentions.

The Act sets out five purposes. Six National Principles have been developed to guide Local Government Grants Commissions (LGGCs) in allocating the assistance to achieve those purposes. The purposes, our interpretation of them and the associated National Principles are:

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<sup>1</sup> Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995*, June 2001, p. ix-xiv.

- Financial Capacity, which is about ensuring that every LGB receives a share of the financial assistance provided by the Act. It is supported by the Minimum Grant and the Identified Road Component Principles;
- Certainty of Funding, which aims to ensure certainty of funds to the local government sector;
- Equitable Level of Services, which aims to ensure that relatively greater funds are provided to LGBs which, because of their greater costs of providing services or because of their more limited ability to raise revenue, are more relatively disadvantaged than other LGBs. The Horizontal Equalisation, Effort Neutrality, Other Grant Support, Aboriginal Peoples and Torres Strait Islanders and Minimum Grant Principles all bear on this purpose;
- Efficiency and Effectiveness, which aims to improve the efficiency and effectiveness of LGBs; and
- Aboriginal Peoples and Torres Strait Islanders, which relates to improving the provision of services by LGBs to Indigenous people and has an associated Aboriginal Peoples and Torres Strait Islanders Principle.

**The Financial Capacity Purpose** is being achieved. The Minimum Grant Principle, which is well understood and correctly applied by LGGCs, ensures that each LGB receives a minimum of 30 per cent of their population share of the General Purpose pool. All LGBs with roads responsibilities also receive a share of assistance from the Local Roads pool, in accordance with the Identified Road Component Principle. The provision of at least a minimum level of assistance to all LGBs reflects one of the underlying intentions of the Commonwealth. This intention should continue to be implemented, but expressed in the form of a Per Capita grant to ensure that every LGB receives a share of assistance. The current rate of this assistance (30 per cent) should be retained.

**The Certainty of Funding Purpose** is also being achieved. The Act includes an escalation process that provides for growth in the level of funds to the local government sector for the duration of the Act.

**The Equitable Level of Services Purpose** is described in terms of horizontal equalisation, as far as practicable. The definition of horizontal equalisation in the Act, the language of the Act, and the limited amount of funding indicate the purpose is about providing additional assistance to disadvantaged LGBs. As such, it is broadly being achieved. However, the language of the Act and of the associated Horizontal Equalisation National Principle should be revised. In particular, the term horizontal equalisation should be replaced

with 'relative need based on equalisation principles' because this more clearly reflects the Commonwealth's intentions and what is being, and can be, achieved. It would also avoid using the language of horizontal equalisation in a different way from its use in the allocation of Commonwealth general revenue assistance to the States.

The Minimum Grant Principle conflicts with the Horizontal Equalisation Principle because minimum grants and equalisation grants are funded from the same pool. As the minimum grants are not distributed on an equalisation basis, they reduce the assistance available to meet the Commonwealth's equity objective.

Implementation of the Horizontal Equalisation National Principle requires LGGCs to make comprehensive assessments covering all areas of local government expenditure and revenue, all influences that might affect the expenditure required and the revenue raised, and to assess both relative advantages and relative disadvantages. Some changes in the methods of LGGCs are required to better implement the intent of this National Principle.

The Effort Neutrality and the Other Grant Support Principles are integral aspects of any distribution of untied grants on the basis of equalisation principles or relative need. The Other Grant Support Principle is not consistently interpreted or implemented by LGGCs, with implications for LGB grants. The Principles are appropriate for an untied grant arrangement on equalisation principles, but the language of them could be improved to make the concepts better understood.

**The Efficiency and Effectiveness Purpose** attempts to impose conditions on the allocation of the financial assistance. This is not an appropriate purpose for an Act that distributes untied assistance on equalisation principles. It should be removed from the Act.

**The Aboriginal Peoples and Torres Strait Islanders Purpose** attempts to direct LGBs to spend part of their assistance on improving services to Indigenous people. It is inconsistent with the untied nature of the assistance being distributed and should be removed. However, the associated Aboriginal Peoples and Torres Strait Islanders Principle should be retained even though conceptually it is not required in a grants distribution process based on relative need. This Principle should be strengthened to make it explicit that relative need requires an assessment of the impact of Indigenous people on the expenditure requirements and revenue raising capacity of LGBs.

We think that the National Report needs to take on a much stronger monitoring role in this area. It should monitor and report on:

- The extent to which LGGCs' assessment methods recognise the needs of Indigenous people; and
- The performance of LGBs in providing services to Indigenous people (performance measures should be developed for this purpose).
- The Act also identifies two **goals of the Commonwealth** in providing the financial assistance. They are to:
  - Increase the transparency and accountability of the allocation of funds by LGGCs; and
  - Promote greater consistency in the methods used to allocate equalisation grants.

**Transparency and Accountability** are not defined in the Act. We think transparency is about LGBs being able to understand how their grant has been calculated and accountability is about LGGCs providing information to assist that understanding further. Improvements in these areas are required. LGGCs should provide more and clearer information in their annual reports and the National Report should provide commentary on the different approaches of the LGGCs.

**The Consistency Goal** described in the Act relates to consistency in the methods used by LGGCs to allocate funds. There are many differences between LGGCs in the areas of expenditure and revenue covered by their assessments, the range of influences on expenditure and revenue levels assessed and the methods of measurement. Such differences are to be expected given the differences in the circumstances of LGBs both between and within the States. LGGCs require the flexibility to adopt methods that best reflect their circumstances.

The consistency goal should focus on the consistency of LGGCs' methods with the National Principles. Changes in LGGCs' assessment methods are required to achieve consistency with the Relative Need, Other Grant Support and Aboriginal Peoples and Torres Strait Islanders Principles.

**The Identified Road Component Principle** is appropriate because it is consistent with the intent of the Act and provides guidance to LGGCs on how to allocate their Local Roads grants.

### **Improving the Arrangements**

The operation of the Act would be improved if the Commonwealth's intentions in providing its assistance were clearer and more transparent, with a clearer relationship between the purposes and the funds provided. We think this could be achieved if there were:

- A Per Capita pool to provide every LGB with a share of the assistance;
- A Local Roads pool to contribute towards LGBs' costs of maintaining their local roads; and
- A Relative Need pool to improve equity by providing additional assistance to the more disadvantaged LGBs.

Every LGB would receive a fixed per capita share from the Per Capita pool. Every LGB that has a road responsibility would receive funding from the Local Roads pool. Only relatively disadvantaged LGBs would receive funding from the Relative Need pool. As part of the changes, a purpose should be drafted for the Act to outline the Commonwealth's intentions in providing the assistance from each pool.

**Transitional Arrangements.** The changes to the proposed three pool arrangement will not alter the total amount of assistance available or the allocation to the States. However, requiring LGGCs to amend their assessment methods to make them more consistent with the National Principles is likely to change the current distribution of grants to LGBs within States. A five year transitional period would be appropriate to enable LGGCs to modify their methods and LGBs to adjust to the changes in their grants.

The National Report should play a much stronger monitoring role. Areas that it should monitor and report on include:

- The extent to which LGGCs' assessment methods and approaches are consistent with the National Principles;
- The extent to which LGGCs are modifying their equalisation assessments to deliver greater stability in annual grants;
- The extent to which LGGCs' assessment methods recognise the needs of Indigenous people;
- Assessing the performance of LGBs in providing services to Indigenous people;
- The extent to which LGGCs explain how individual grants have been calculated and provide sufficient information to enable LGBs to calculate them if they wish; and
- The effectiveness of the proposed transitional arrangements.

### **Impact on Revenue Raising and the Provision of State Assistance**

Since the introduction of the Commonwealth's financial assistance grants in 1974–75, local government revenue from all sources has grown on average by

10.1 per cent per annum. Revenue from local government taxes and charges was about the same proportion in 1997–98 as it was in 1974–75. The introduction of Commonwealth assistance appears to have had little impact on local government revenue raising effort at the national level.

State assistance to local government has increased absolutely in real terms over the same period. However, the rate of increase has been less than the rate of increase of other sources of local government revenue. State assistance has declined in relative importance from about 15 per cent of local government revenue in 1974–75 to 7 per cent in 1997–98.

### **Implications of Changes in Functions and Responsibilities**

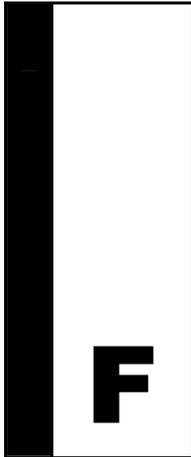
Local government functions and responsibilities have expanded over the period since 1974–75. Analysis of local government expenditure over the period 1961–62 to 1997–98 shows that the composition of services being provided by local government has changed markedly over the last 30–35 years. Local government is increasingly providing human services at the expense of traditional property-based services (particularly roads).

Some changes are the result of the changing priorities of local government, others are imposed on them by other spheres of government. The general broadening of local government functions has implications for local government finances.

### **Eligibility for Assistance**

The Act provides the Commonwealth Minister with the capacity to declare bodies that are providing local government-type services, but are not LGBs under State legislation, to be eligible to receive financial assistance grants. 40 of the 730 LGBs eligible to receive grants under this Act are declared LGBs. These arrangements are working well and should be retained. The Act should be amended to allow:

- Either the Commonwealth or State Minister to initiate a declaration — but require both to agree to it; and
- The Ministers to revoke an existing declaration, provided both agree.



## **Appendix F: Local Government Financial Assistance Grants<sup>1</sup>**

The Commonwealth has been providing untied financial assistance to local government since 1974-75. Until the Territories achieved self-government, these grants did not cover the ACT or the Northern Territory. Grants for local government bodies in the Northern Territory began in 1979-80 and a grant to the ACT for municipal purposes began in 1988-89. Local roads grants were added to the financial assistance grants in 1991-92.

In 2002-03, it is estimated that the Federal Government will provide \$1.449 billion nationally – equivalent to about \$74 per capita – in financial assistance to local government.

These financial assistance grants are paid as tied grants through the States and have two components – general purpose grants and identified local road grants.

The objective of general purpose assistance from the Federal Government to local government is to strengthen local government to enable it to provide a wider range of services and to promote equity between councils and certainty of funding. These grants are untied in the hands of the receiving council. This means that councils are able to spend the grant according to the priorities of their communities.

The general purpose grants commenced in 1974-75 with allocations in the 1974 and 1975 Budgets distributed according to Commonwealth Grants Commission recommendations. This was followed, over the next two decades, by development in legislative arrangements for providing financial

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<sup>1</sup> Extract from DOTARS Submission No. 103, Appendix 2, pp. 73-82.

assistance to local government. In mid-1984 the Federal Government commissioned an Inquiry into local government (the Self Inquiry) which reported in October 1985. The Self Inquiry led to the *Local Government (Financial Assistance) Act 1986*. From July 1991, as a result of a decision at the 1990 Special Premiers' Conference, local roads grants to local government were provided under the 1986 Act (as amended). These grants are intended to help councils with the cost of maintaining their local roads but, as they are also untied, councils are not required to spend them on local roads.

The 1986 Act was reviewed in 1994 and the *Local Government (Financial Assistance) Act 1995*, under which grants are currently provided, came into effect from July 1995.

In 2000–01, the Commonwealth Grants Commission (CGC) undertook a review of the operation of the 1995 Act.

A more detailed history of Commonwealth untied financial assistance to local government is found in Chapter 6 of the CGC Review Working Papers.

## Objects of the Act

Section 3 of the Act explains the objects of the Parliament in enacting the *Local Government (Financial Assistance) Act 1995*:

- (2) The Parliament wishes to provide financial assistance to the States for the purposes of improving:
- The financial capacity of local governing bodies;
  - The capacity of local governing bodies to provide their residents with an equitable level of services;
  - The certainty of funding for local governing bodies;
  - The efficiency and effectiveness of local governing bodies; and
  - The provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities.

## Overview of Current Arrangements

In determining the distribution of grants to councils, the current arrangements are:

At the beginning of each financial year, the Federal Government determines the quantum of general purpose and local roads grants estimated to be available for local government nationally. This is equal to the quantum of the grants received nationally in the previous financial year adjusted by an estimated escalation factor.

The estimated quantum of general purpose and local roads grants for each State is then calculated according to requirements of the *Local Government (Financial Assistance) Act 1995* and these amounts are advised to States.

Local government grants commissions in each State determine the allocation of general purpose and local roads grants among local governing bodies in their State.

The Local Government Grants Commission recommendations are then sent, by the State Minister, to the Federal Minister for approval.

Once these grants have been approved by the Federal Minister, quarterly payments are made by the Federal Government to the States and, without undue delay, these are passed on by the States to local governing bodies as untied grants.

Toward the end of the financial year, the escalation factor is revised and the final quantum of the grants for the financial year is recalculated.

An adjustment to the allocations to local governing bodies is made and their payments in the following year adjusted.

#### Determining the Quantum of the Grant

Section 8 of the Act specifies the formula to be applied by the Federal Treasurer each year to determine the increase in the level of local government financial assistance grants. Up to and including 1999–2000, the annual increase in local government grants was based on the increase in financial assistance grants and special revenue assistance to the States.

From 1994–95 to 30 June 2000, the grants were increased annually in line with population and consumer price index movements (N.B. in 1997–98, local government grants were increased for inflation, but not population growth).

Following the introduction of the new tax system in July 2000, increases in financial assistance grants to the states are no longer related to the consumer price index and population. This link was abolished from 1 July 2000 under the terms of the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations*. The States now receive the goods and services tax (GST) revenue.

In June 2000, the *Local Government (Financial Assistance) Act 1995* was amended to remove the nexus between movements in the local government financial assistance grants and States' financial assistance grants. The escalation factor for local government financial assistance is now on a real per capita basis similar to that previously operating for the State grants.

The amendments provided the Treasurer with discretion to increase or decrease the escalation factor in special circumstances. In applying his or her discretion, the Treasurer is required to have regard to the objects of the Act and any other matters he or she thinks relevant. The same escalation factor is applied to both the general purpose and local roads components of the grant.

#### **Determining Actual State Entitlements and Estimated Entitlements**

For each State and for both components of the grants, actual entitlements for the previous year and estimated entitlements for the forward year are calculated using the respective final factor and estimated factor, which are determined in accordance with the Act.

#### **Calculation of Grants**

Each year, the quantum of the grant to local government is determined at the start of the financial year, using a formula based on estimates of the consumer price index and population increases for the year. Councils are usually advised in August of the grant to be paid that financial year.

At the end of each year the estimated grant for local government is adjusted to an 'actual' entitlement, calculated using the actual consumer price index and population figures. Inevitably there is a difference between the estimated and actual grant entitlements. This difference is added to or subtracted from the grant paid to the State in the following year. Therefore for each year there is an estimated grant entitlement, an actual grant entitlement and an actual grant paid.

#### **Interstate Distribution**

Table A 2.1 shows the allocation of funds amongst the States for 2002–03. The Act specifies that the national allocation of the general purpose component of the grant is to be divided amongst the States on a per capita basis. This uses the Australian Bureau of Statistics' estimate of each State's population and the estimated population of all States as at 31 December of the previous year.

In contrast, the State shares of the local roads component of the grant are fixed. The distribution is determined on the basis of shares inherited from the former, tied grant arrangements. Therefore, each State's share of the local roads component is obtained by multiplying the previous year's funding by the escalation factor determined by the Treasurer.

**Table A 2.1: General Purpose and Local Roads Grants, Allocation amongst States, 2002–03**

State	General Purpose Grant			Local Roads Grant			Total Grant		
	\$m	% of total	\$ per capita	\$m	% of total	\$ per capita	\$m	% of total	\$ per capita
NSW	340.2	33.89	51.21	129.2	29.01	19.45	469.4	32.39	70.66
Vic	248.6	24.76	51.21	91.8	20.62	18.92	340.4	23.49	70.12
Qld	188.0	18.73	51.21	83.4	18.74	22.73	271.4	18.73	73.94
WA	98.3	9.79	51.21	68.1	15.29	35.49	166.4	11.48	86.70
SA	77.8	7.75	51.21	24.5	5.50	16.11	102.3	7.06	67.32
Tas	24.2	2.41	51.21	23.6	5.30	49.87	47.8	3.30	101.08
NT	10.2	1.02	51.21	10.4	2.34	52.20	20.7	1.43	103.41
ACT	16.5	1.65	51.21	14.3	3.21	44.26	30.8	2.13	95.47
<b>Total<sup>a</sup></b>	<b>1003.7</b>	<b>100.00</b>	<b>51.21</b>	<b>445.4</b>	<b>100.00</b>	<b>22.72</b>	<b>1,449.1</b>	<b>100.00</b>	<b>73.93</b>

<sup>a</sup> all variations due to rounding adjustments.

The interstate distribution of local government financial assistance grants has been a contentious issue between States for some time.

### Principles for Determining Distribution of Grants within States

The 1995 Act requires National Principles to be formulated in consultation with State Ministers and a body or bodies representative of local government. The National Principles came into effect from 1996–97 and apply to both grant components. The National Principles applying to the general purpose component provide additional criteria to the objectives of full horizontal equalisation and the minimum grant which are established in the Act.

#### *The Horizontal Equalisation Principle*

The Commonwealth pursues a policy of horizontal equalisation when it distributes general purpose funding for State Governments. Horizontal equalisation would be achieved if every council in a State, by means of reasonable revenue-raising effort, were able to afford to provide a similar range and quality of services. Horizontal equalisation within States aims to bring all councils in that State up to the same fiscal level.

More formally, section 6(3) of the Act defines horizontal equalisation as being an allocation of funds that:

- a) ensures each local governing body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State; and
- b) takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their functions and in their capacity to raise revenue.

Horizontal equalisation distribution of grants is determined by estimating the cost each council would incur in providing a normal range and standard of services, and by also estimating the revenue each council could obtain through the normal range and standard of rates and charges. The grant is then allocated to compensate for these variations in expenditure and revenue and (ideally) bring all councils up to the same level of financial capacity.

This means councils that would incur higher costs in providing normal services, for example, in remote areas (where transport costs are higher), or areas with a higher proportion of elderly or pre-school aged people (where there will be more demand for specific services) will receive additional grant monies. Similarly, councils with a strong rate base (highly valued residential properties, high proportion of industrial and/or commercial property) will tend to receive less grant monies.

For the general purpose grant, the most important Principle is that the grants are distributed so as to contribute to achieving horizontal equalisation. Horizontal equalisation is achieved if each council in a State is able to provide the average range, level and quality of services by reasonable effort, taking account of differences in their capacities to raise revenue and in their expenditure needed to provide average services.

#### *The Minimum Grant Principle*

The Minimum Grant Principle ensures that each council receives at least a minimum level of general purpose assistance as required by the Act. This minimum is set at 30 per cent of a council's per capita share of general purpose grants.

Section 6(2)(b) of the Act requires the Minister to ensure that:

No local governing body in a State will be allocated an amount under section 9 (the general purpose component of the grant) in a year that is less than the amount that would be allocated to the body if 30 per cent of the amount to which the State is entitled under that section in

respect of the year were allocated among local governing bodies in the State on a per capita basis.

#### *The Effort Neutrality Principle*

The Effort Neutrality Principle requires that a council's grant be independent of its policies. This means the grant to a particular council is not influenced by that council's actual rates charged, its actual expenditure on particular functions or the extent of its reserves or debt. This process allows a council to decide its own spending priorities and revenue-raising policies without The Other Grant Support Principle

The Other Grant Support Principle requires other grants provided to a council by another sphere of Government to be regarded like any other source of revenue and taken into account when assessing the overall financial capacity of each council. In the assessment of each council's financial capacity, local roads grants provided under this Act should be included as well as any other grants that relate to the provision of local government services that are within the scope of services covered by the grant allocation process.

#### *The Aboriginal Peoples and Torres Strait Islanders Principle*

The Aboriginal Peoples and Torres Strait Islanders Principle seeks to address the specific needs of Aboriginal and Torres Strait Islander peoples in the provision of council services. The Principle requires that the level of grants received by councils should reflect the Aboriginal and Torres Strait Islander population within council boundaries. This means that calculation of the grant for councils should reflect differences in the demand for services by Indigenous people, the cost of providing services to them and the capacity to raise revenue from them.

#### *The Roads Principle*

There is one National Principle applying to the Identified Road Component. It requires distribution of this component on the basis of road expenditure needs, including consideration of factors such as length, type and use of roads.

#### **Transitional Modifications**

Section 26 of the Act allows the Federal Minister to approve transitional modifications of the National Principles for individual States for specified years. Queensland, Victoria and Tasmania requested, and were granted, such modifications which allowed phased introduction of changes resulting from implementing the National Principles. Queensland has been granted transitional modifications each year since the 1996–97 grant year.

### Determining the Distribution of Grants within States

Local government grants commissions, established within each State and the Northern Territory (not the Australian Capital Territory), determine individual council allocations in accordance with the National Principles. In the Australian Capital Territory, local government is integrated with the Territory government and there is no role for a Commission.

Local government grants commissions are State authorities required by the Federal Government under the *Local Government (Financial Assistance) Act 1995* as a condition of the State receiving local government financial assistance grants. The State provides the resources for the grants commission.

### Local Government Grants Commissions

Section 6 of the Act specifies the criteria a body must satisfy to be eligible to be recognised as a Local Government Grants Commission for a State. These criteria are:

- The body is established by a law of the State;
- The principal function of the body is to make recommendations to the State Government about the provision of financial assistance to local governing bodies in the State; and
- The Commonwealth Minister is satisfied that the body includes at least two people who are or have been associated with local government in the State, whether as members of a local governing body or otherwise.

Sections 11 and 14 of the Act require local government grants commissions to:

- Hold public meetings in connection with the recommendations;
- Permit local governing bodies to make submissions to the Commission in relation to the recommendations; and
- Make their recommendations in accordance with the National Principles and any agreed State-specific principles.

After the local government grants commission has determined the grant distribution, the State Minister recommends the allocation to the Commonwealth Minister for approval. One of the conditions for approval is that the Commonwealth Minister is satisfied the State has adopted the recommendations of its Grants Commission.

The Commonwealth pays grants to each State Governments as a tied grant to be passed on to councils in accordance with the approved distribution.

Although a tied grant to the States, the grants are untied in the hands of local government, to give councils discretion regarding local priorities.

Section 15 of the Act requires, as a condition on the payment to local government from the States, that they are paid by the State without undue delay and without conditions. Further, each State Treasurer must give the Federal Minister, as soon as practicable after 30 June each year, a statement detailing payments made to councils during the previous financial year as well as the date the payments were made. The State Auditor-General must certify the statement.

The grants are paid to the States in equal instalments in the middle of each quarter. The first payment for a financial year is paid as soon as statutory conditions are met. One of the requirements of the Act is that the first payment can not be made before 15 August.

### Bodies Eligible to Receive Financial Assistance Grants

Only local governing bodies are entitled to receive financial assistance grants. All councils constituted under State local government Acts are automatically local governing bodies. In addition, Section 4(2) of the Act provides for 'a body declared by the Minister, on the advice of the relevant State Minister, by notice published in the Gazette, to be a local governing body for the purposes of this Act'.

In total, 723 councils will receive grants in 2002–03. Included in this figure are 39 declared local governing bodies made eligible under this provision. Table A 2.2 shows the distribution of declared bodies by State.

**Table A 2.2: Distribution of Local Governing Bodies by Type by State at June 2002**

Type	NSW	Vic	Qld	WA	SA	Tas	NT <sup>2</sup>	Total
Councils established by legislation <sup>1</sup>	173	78	157	142	68	29	37	<b>684</b>
Declared	2	1	0	0	6	0	30	<b>39</b>
<b>Total</b>	<b>175</b>	<b>79</b>	<b>157</b>	<b>142</b>	<b>74</b>	<b>29</b>	<b>67</b>	<b>723</b>

Notes:

- 1 Local governing bodies eligible under section 4(2) of the Act as they are constituted under State local government Acts.
- 2 includes Northern Territory Road Trust Fund

### Local Government Grants Commissions Methods

The State Grants Commissions are required to determine the distribution of grants in accordance with the National Principles and to take into account local circumstances.

To determine the allocation of general purpose grants within a State, the respective Grants Commission assesses the amount each council would need to be able to provide a standard range and quality of services, while raising revenue from a standard range of rates and other income sources. The Commission then develops recommendations for grant distribution by allocating the available grant to councils taking account of their assessed grant need, and the minimum grant requirement. Distribution of the local roads component is determined based on assessments of councils' road expenditure need.

These are difficult tasks, requiring considerable experience and judgement. Grants Commissions need to accurately and quantitatively assess the unique circumstances of a large number of councils in their jurisdictions in terms of providing a variety of services and raising a number of revenues.

Grants Commissions use a variety of assessment methods to quantify a council's level of advantage or disadvantage across each area of expenditure and revenue. A detailed description of the methods used by each grants commission is contained in the Commonwealth's National Report, Appendix B. The Commissions also publish information about their methods in annual reports and occasional publications.

### National Grant Allocation

The level of general purpose grants since the Commonwealth commenced general purpose assistance to local government in 1974–75 together with untied local road grants since 1991–92 is detailed in Table A 2.3.

**Table A 2.3: National Financial Assistance Grant Allocation, 1974–75 to 2002–03 (\$)**

Year	General purpose	Local roads	Total
1974–75	56,345,000	n/a	56,345,000
1975–76	79,978,000	n/a	79,978,000
1976–77	140,070,131	n/a	140,070,131
1977–78	165,327,608	n/a	165,327,608
1978–79	179,426,870	n/a	179,426,870
1979–80 <sup>1</sup>	222,801,191	n/a	222,801,191
1980–81	302,226,347	n/a	302,226,347

1981–82	352,544,573	n/a	352,544,573
1982–83	426,518,330	n/a	426,518,330
1983–84	461,531,180	n/a	461,531,180
1984–85	488,831,365	n/a	488,831,365
1985–86	538,532,042	n/a	538,532,042
1986–87	590,427,808	n/a	590,427,808
1987–88	636,717,377	n/a	636,717,377
1988–89	652,500,000	n/a	652,500,000
1989–90	677,739,860	n/a	677,739,860
1990–91	699,291,988	n/a	699,291,988
1991–92 <sup>2</sup>	714,969,488	303,174,734	1,018,144,222
1992–93 <sup>3</sup>	730,122,049	318,971,350	1,049,093,399
1993–94	737,203,496	322,065,373	1,059,268,869
1994–95	756,446,019	330,471,283	1,086,917,302
1995–96 <sup>4</sup>	806,748,051	357,977,851	1,164,725,902
1996–97	833,693,434	369,934,312	1,203,627,746
1997–98	832,859,742	369,564,377	1,202,424,119
1998–99	854,180,951	379,025,226	1,233,206,177
1999–2000	880,575,142	390,737,104	1,271,312,246
2000–01	919,848,793	408,163,979	1,328,012,772
2001–02	965,841,233	428,572,178	1,394,413,411
2002–03 <sup>5</sup>	1,003,702,209	445,372,208	1,449,074,417

## Notes:

- 1 Grants to the Northern Territory under the Act commenced in 1979–80, the initial allocation being \$1,061,733.
- 2 Prior to 1991–92 local roads grants were provided as tied grants under a different Act.
- 3 In 1992–93 part of the local roads grant entitlement of the Tasmanian and Northern Territory Governments was reallocated to local government in the respective State.
- 4 Grants to the Australian Capital Territory under the Act commenced in 1995–96, the initial allocation being general purpose (\$13,572,165) and local roads (\$11,478,714).
- 5 For 2002–03 the national grant allocation is the estimated entitlement.

The grant entitlements for States from 1998–99 to 2002–03 are provided in Table A 2.4.

**Table A 2.4: Grant Entitlements for all States by Type of Grant, 1998–99 to 2002–03 (\$m)**

State	Type of Grant	1998–99	1999–00	2000–01	2001–02	2002–03
NSW	GP	289,122,909	297,893,674	310,670,281	327,747,092	340,161,401
	LR	109,967,111	113,365,094	118,421,178	124,342,237	129,216,452
	Total	399,090,020	411,258,768	429,091,459	452,089,328	469,377,853
Vic	GP	212,348,975	218,827,409	228,730,976	239,054,282	248,565,220
	LR	78,141,293	80,555,859	84,148,650	88,356,082	91,819,641
	Total	290,490,268	299,383,268	312,879,626	327,410,365	340,384,861
Qld	GP	157,152,792	162,692,473	170,764,707	179,769,293	187,952,916
	LR	71,015,440	73,209,818	76,474,975	80,298,724	83,446,434
	Total	228,168,232	235,902,291	247,239,682	260,068,017	271,399,350
WA	GP	83,128,999	86,223,641	90,349,594	94,473,299	98,256,102
	LR	57,953,514	59,744,277	62,408,872	65,529,316	68,098,065
	Total	141,082,513	145,967,918	152,758,466	160,002,614	166,354,167
SA	GP	68,005,311	69,591,120	72,250,229	75,398,572	77,776,866
	LR	20,830,002	21,473,649	22,431,374	23,552,943	24,476,218
	Total	88,835,313	91,064,769	94,681,603	98,951,515	102,253,084
Tas	GP	21,683,676	22,002,166	22,731,964	23,564,215	24,233,779
	LR	20,085,659	20,706,306	21,629,807	22,711,297	23,601,580
	Total	41,769,335	42,708,472	44,361,771	46,275,512	47,835,359
NT	GP	8,636,642	8,938,475	9,382,393	9,903,259	10,234,625
	LR	8,878,600	9,152,948	9,561,170	10,039,228	10,432,766
	Total	17,515,242	18,091,423	18,943,563	19,942,487	20,667,391
ACT	GP	14,101,647	14,406,184	14,968,649	15,931,221	16,521,300
	LR	12,153,607	12,529,153	13,087,954	13,742,351	14,281,052
	Total	26,255,254	26,935,337	28,056,603	29,673,572	30,802,352
National total	GP	854,180,951	880,575,142	919,848,793	965,841,233	1,003,702,209
	LR	379,025,226	390,737,104	408,163,979	428,572,178	445,372,208
Total		1,233,206,177	1,271,312,246	1,328,012,773	1,394,413,411	1,449,074,417

Notes: all years are actual entitlement except 2002–03 which is an estimated entitlement. All variations are due to rounding adjustments.

GP = General Purpose

LR = Local Roads