



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND
PUBLIC ADMINISTRATION

Reference: Local government and cost shifting

THURSDAY, 5 SEPTEMBER 2002

CANBERRA

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION
Thursday, 5 September 2002

Members: Mr Hawker (*Chair*), Ms Burke (*Deputy Chair*), Mr Albanese, Ms Gambaro, Mr Griffin, Mr Peter King, Mr Latham, Mr Nairn, Mr Somlyay and Dr Southcott

Members in attendance: Mr Albanese, Ms Burke, Mr Hawker, Mr Peter King and Mr Nairn

Terms of reference for the inquiry:

To inquire into and report on:

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 <http://www.cgc.gov.au>/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.

WITNESSES

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Committee met at 9.06 a.m.

CHALMERS, Mr Ian, Chief Executive, Australian Local Government Association

KNIGHT, Ms Naomi, Director, Public Affairs, Australian Local Government Association

ROSS, Councillor John, President, Australian Local Government Association

CHAIR—I declare open the hearing of the House of Representatives Standing Committee on Economics, Finance and Public Administration and welcome everyone today. The issue of local government and cost shifting is already creating a lot of interest for local government representatives and communities all across Australia. We have had over 270 submissions to the inquiry, 210 from local councils, and we do expect more submissions. In the inquiry we are looking at local government's roles and responsibilities, current and alternative funding arrangements, and the scope for achieving a rationalising of roles and responsibilities between the levels of government. We are interested in achieving better use of resources and delivering better quality services to local communities.

This morning I welcome representatives of the Australian Local Government Association. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House of Representatives. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Would you like to make a brief statement before the committee proceeds to questions?

Councillor Ross—I will take this opportunity to make a statement, and I thank you for the opportunity to appear before you and your colleagues on this occasion. It is important that we present our views to you and, again, I thank you for the opportunity to do that. I want to commend the committee for undertaking this term of reference. The scope of the reference is broad and the issues are complex and emotive, and I think the committee is to be commended for being prepared to undertake this very important inquiry.

I am not overstating the case when I say that it is the view of Australian local government that the outcome of this inquiry and subsequent actions will play a determining role in our future. The fact that there have been 270 submissions already suggests the importance that local government and other players place on this inquiry. I think that it is also important that we are appearing before a bipartisan group because we are considering something that will, as you have stated, define the role and function of local government in the future, the way the resources are applied and what we, as a level of government, provide for our constituents. While the issues are complex and difficult they affect not only every council in Australia but every resident in Australia. As a consequence, they have the ability to incite, excite and inflame passion and argument. The five volumes of submissions already printed by the committee highlight the interest in the inquiry and, as I travel around the country speaking to my colleagues, the committee and the inquiry are the key topics of conversation.

In the initial read through of the submissions that are available, I was struck by the unanimity of views on a few key themes. Firstly, that cost shifting is occurring. Secondly, local government is underresourced and is unfairly carrying that burden. Thirdly, local government is

the sphere of government closest to the people and therefore the most appropriate sphere of government to provide services at the local level. Finally, local government should be appropriately recognised in the Constitution. I want to briefly touch on each of these themes in a moment but, before doing that, I take the opportunity to provide the committee with a brief overview of the history of local government and its peak body, the Australian Local Government Association.

The recorded history of Australian local government commences from 1840 with a council formed in Adelaide. However, it is important to note that local government in Australia is much older than colonisation. The governance processes and institutions of Indigenous cultures of Australia are the starting point for any history of Australian local government.

Many argue why South Australia was home to the first formally recognised council. Some suggest the free settler status of the colony greatly influenced the emergence of democratic structures while others focus on the tyranny of distance and its impact on communications and governing authorities both within the continent and back to the Empire as being the motivating force for the emergence of local governance structures. Whatever the motivation for the first Australian council, the movement rapidly spread across the other colonies as a highly effective mechanism to build, maintain and support the provision of services and community infrastructure.

As local government has sprung up across the continent, differing factors and circumstances guided the movement ultimately resulting in seven different systems of local government. As a number of submissions from the state local government associations point out, any comparison between local government systems in Australia and the UK, the US and Canada are not appropriate as the roles, responsibilities and functions are fundamentally different. Similarly, in respect of the recent emergence and ascendancy of local government structures in the European Union which perform different functions and bear little comparison, it is not helpful to make a comparison for this purpose.

The Australian Local Government Association is the peak body of Australian local government with membership comprising the six state local government associations, the Northern Territory Local Government Association and the ACT government. Through the state and territory local government associations, ALGA represents the local government sphere. In 1995, the Prime Minister Paul Keating signed an accord with the ALGA and made local government, through the ALGA, a full member of the Council of Australian Governments. Since that time, this accord has been honoured and expanded. As a full member of COAG, ALGA has full membership status on appropriate ministerial councils and a number of ad hoc bodies such as the recently formed Public Liability Ministerial Forum.

As a federated association, ALGA represents the national view of local government but it does not purport, or indeed intend, to advocate on behalf of any particular state, or any particular council or local governing body. To this end, I point out that, under ALGA's articles of association, no ALGA employee or representative is authorised to comment on, or about, state distributions of financial assistance grants as these matters are the province of the respective ministers. If I were to put a personal view, I would say that ALGA does not have a view about the distribution of financial assistance grants and that certainly they should be decided by the Commonwealth.

I would like to make a few opening comments about the submissions received so far from my colleagues and comment on the professionalism of the submissions, the fact that they have been prepared by our elected officials, and that, in many cases, they bear the stamp of councils that have consulted with communities. There has been a wide gathering of the evidence we put to you today. The due process procedures, the depth and breadth of information and evidence that has been presented to the inquiry serve to highlight local government's serious attitude towards this inquiry. It also serves to highlight the seriousness with which local government representatives approach their representational duties. In this context, I take the opportunity to note that there are no less than eight federal parliamentary committees currently holding inquiries on issues of importance to local government. The time lines, the breadth of the terms of reference associated with these inquiries and the sheer number of inquiries have placed a significant burden on local government. Mr Chairman, I thank you for providing the opportunity for those councils who have not been able to meet the time line to still make submissions that will be considered by you.

Turning to our submission, on behalf of the ALGA secretariat I wish to make it clear to the inquiry that we do not purport to speak for individual councils or on specific state issues. I know that most councils wish to appear before the committee themselves, and I note that some have done that already, to explain their own experiences. Therefore, our submission seeks to provide a backdrop against which hundreds of submissions received by the committee can be viewed. The 698 local government bodies and approximately 100 community and Indigenous councils in Australia each have specific experiences that they may wish to recount. The sheer scale of this enterprise should not be underestimated—more than 770 individual local governing authorities and councils, six different state systems, the Northern Territory, the ACT and the Commonwealth all have their experiences to recount.

ALGA suggests to the committee that there are four main themes running through the terms of reference: the current roles and responsibilities of local government; the impact of cost shifting by other spheres of government onto local government; appropriate recognition of the roles and responsibilities of local government; and the long-term financing of local government. As I read through the submissions I was continually struck by the line that local government is the sphere of government closest to the people. I understand that many in Canberra and elsewhere are perhaps cynical about such statements, yet the truth cannot be denied. The principle of subsidiarity—decision making processes occurring at the level where they impact—has taken hold in the community. Social scientists, demographers, planners and environmentalists all note the trend toward local involvement and engagement. Local government is the form of democracy closest to individuals and communities.

The issues local government concerns itself with directly relate to the daily lives of citizens and communities, and they innately understand that they have a better chance of changing or influencing council decisions than they do in other spheres of government, and it is decision making at this level that gives shape and order to their own lives. I note that in your particular roles you are often physically divorced from your constituents by virtue of the fact that you have to travel to the national seat of local government. Local government people are obviously in touch with their own communities all the time and for them it is easier to provide that understorey of democracy, and I hope they do it well.

As the global environment becomes increasingly uncertain, it is natural for individuals to seek out environments in which they feel safe and secure and over which they have control. One's local community is such an example. An individual can make a difference to the provision of aged and children's services, street lighting and sustainable environmental practices, to name a few, in their local area. I want to be clear in saying this: it does not diminish any other sphere of government. Each of the three spheres of government in the Australian federation has a significant but different role to play in contributing to the lives of the citizens and the community, and the difference does not equate to better or worse. Local government is diverse, sophisticated and complex; it offers a range of services across a full spectrum of hard and soft infrastructure. Whilst initially focusing on basic infrastructure, local government has evolved significantly over the past 150 years. It is no longer just about roads, rates and rubbish; it is about building sustainable communities and a nation. Yet, despite the evolution of local government's role, the constitutional, legislative and financial framework that support this, the third sphere of government, have not kept pace. Clearly it is time for constitutional reform to better reflect the contemporary reality and the new roles, functions and powers of Australian local government.

Some of these new roles, functions and powers have occurred as a result of policy choice, increased community expectations, devolution and prescription through legislation and regulations by other spheres of government. Regardless of the cause, local government's general financial capacity must be enhanced to undertake its expanded role. Local government has clearly demonstrated its willingness to secure its own source funding. Currently, approximately 37 per cent of local government revenue is derived from user-pays charges and levies. This cost recovery ratio compares with the Commonwealth at just a little over four per cent and the states at 12 per cent. Communities and individuals cannot continue to be triply taxed for the same or similar services. Many councils and communities note in their submissions that it is inappropriate and inequitable for individuals to pay taxes for social and community services based on the value of their property as compared to income levels. Furthermore, they note that social, health and community services should be provided across the state or nation for all Australians by all Australians, and not be reliant on the narrow local government revenue base. So, essentially, local government finances are being devastated on two fronts: firstly, through the incidence of cost shifting and, secondly, through structural vertical fiscal imbalance. The committee must note that, by addressing one issue, it should not be assumed that the other would automatically be resolved.

I turn to the issue of cost shifting—and I understand the committee heard evidence from the Department of Transport and Regional Services as well as the Commonwealth Grants Commission yesterday. The Grants Commission is to be congratulated on its report into financial assistance grants to local government. Our response to the report is clear by the number of councils who refer to it in their submissions. ALGA defines the term 'cost shifting' in a much broader sense than the Grants Commission or the Department of Transport and Regional Services. First and foremost, Australian local government does not accept that cost shifting is solely confined to the state governments. It is clear to ALGA and the broader local government community that the Commonwealth also undertakes cost shifting onto local government. Therefore, ALGA's definition includes both other spheres of government and the following: where local government is required to provide services that had previously been provided by other spheres of government; where there is a requirement by other spheres of government to provide concessions and rebates with no compensation payment; where services

are formally referred to and/or assigned to local government through legislative and other state or Commonwealth instruments; where local government is required to be the sole provider of essential/important local services that clearly contribute to regional, state and national public good; where local government is required to be the sole provider of new and innovative services that have no historical funding precedent; where local government is required to pick up services as a result of the direct transfer of ownership of infrastructure from other spheres of government—airports are a classic example of that; where there is imposition of government policies which require local government to undertake costly compliance activity; and where there is failure to provide for indexation of fees and charges that local government is permitted to apply for services prescribed under state legislation or regulation.

The effect of cost shifting has a number of undesirable outcomes for local councils and communities and for state and federal governments. The Grants Commission itself noted that increased spending by local government on social, community and health services has resulted in declining levels of infrastructure maintenance and replacement. An independent report by the Local Government Association of South Australia noted that councils are underspending on infrastructure replacement maintenance by \$95 million per annum in that state.

Quantifying cost shifting is an incredibly hard task. However, a rough minimum estimate can be gleaned from the change in specific purpose payments over time. Between 1974-75 and 1997-98, specific purpose payments halved as a proportion of local government revenue, declining from 14.8 per cent in 1974-75 to 7.1 per cent in 1997-98. During the period 1974-78 to 1997-98, average annual growth rates for sources of local government revenue were: municipal rates, three per cent; user charges, 6.4 percent; other, 4.5 per cent; Commonwealth, 4.3 per cent; and state, 0.4 per cent. The failure of state special purpose grants 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 the states. The problem of cost shifting onto local government has exacerbated vertical fiscal imbalance between the spheres of government.

Local government finances generally are in a parlous state. Financial assistance grants are declining as a proportion of GDP. Currently, they equate to less than 0.6 of one per cent of Commonwealth taxation receipts excluding GST, compared to the 1970s, when they were set at two per cent of Commonwealth income tax revenue. My recollection is that it never did get to two per cent, but I think at some stage one per cent of personal income tax flowed to local government. FAGs were introduced to address vertical fiscal imbalance—for the Commonwealth, the largest revenue raiser, to share its excess revenue with other spheres of government less capable of raising revenue.

The introduction of the new tax system in 2000 significantly altered the financial strength of the six states and two territories. They now have access to a growth based tax, whereas local government's financial position has been further damaged in the process. The declining value of FAGs, together with the increasing incidence of cost shifting, is placing an unbearable burden on communities. This burden was acknowledged by the government in 2000 with the introduction of the \$1.2 billion Roads to Recovery program, a direct Commonwealth grant to local councils, to be spent in accordance with locally determined priorities. This program is an excellent model for the Commonwealth to consider when exploring future options. Having said that, I note that the Commonwealth's decision in this year's federal budget to rephase \$100

million of these moneys to 2004-05 did shock local government and has left some doubts in the minds of some councillors.

You will note in our submission that, as in almost every submission from a local council, the issue of autonomy and stability of funding is dominant. Other spheres of government must respect and acknowledge the right of democratically elected councillors to implement programs and policies. Constraints and interference by state or federal governments through legislative, executive or political decisions on local government without due consultation and consideration of the impact and cost at the local level undermine the tenets of Australian democracy.

Some options to consider in addressing local government's financial situation and the impact of cost shifting include the following. Through the intergovernmental forum of COAG, negotiations should take place to ensure local government has access to a proportion of GST moneys—a growing revenue stream. This would represent a significant step towards addressing vertical fiscal imbalance and should be viewed in light of the declining state special purpose payments. Alternatively, financial assistance grants should be set at an appropriate level of Commonwealth taxation, including GST, or GDP.

We have commissioned our own research into what, if any, solutions exist in local government's hands. It has been suggested that local government could increase reliance on debt financing. While borrowing for capital expenditure is a legitimate and sound economic strategy, much of local government's capital investments do not generate—and, arguably, are not capable of generating—sufficient revenue returns to service debt. Ultimately, increasing debt levels is a cost to the community and is not a strategy currently favoured by the federal government and the majority of states. Alternatively, local government could further increase user charges. Independent research for ALGA indicates that the ceiling has probably been reached on this. Local government is currently obtaining approximately 37 per cent of its operating revenue from this source, compared to four per cent for the Commonwealth and 12 per cent for the states. Equity and public policy considerations would suggest that this approach has been fully maximised.

There is a suggestion that local government's taxation base could be broadened. This option is certainly worthy of further consideration, but I suspect that there is something of a quid pro quo in that, if local government were to expand its tax base, our constituents—whom we share with the other levels of government—would expect that, if we were taxing for a function, there would be an offset and the other levels would not be taxing for that purpose. The last option is reduction or closure of service provision, something we would be hesitant to do. Again, independent research indicates that, prima facie, local government expenditure directly reflects community expectations.

I look forward to the committee's attendance at the National General Assembly of Local Government in Alice Springs. Two hours during the plenary sessions have been set aside for discussion and debate on these issues by delegates with the committee members. I hope that, by that stage, we will have been able to firm up numbers that indicate what the actual quantum of cost shifting is. They are incredibly difficult figures to obtain. We have to get data that means the same to each level of government to make it valid. I expect that we will have been able to do that. My view, just as a guess, is that the cost of cost shifting to local government from the other spheres of government is about double what we get by way of financial assistance grants at the

moment. My guess is that it is about \$3 billion a year. Thank you for your commitment to undertake this inquiry. I hope that the trip to Alice Springs will be some compensation for that; we look forward to seeing you there. I would be very happy to take any questions.

CHAIR—I thank you for that comprehensive introduction, Councillor Ross, and I thank the Local Government Association for the work that they have done. I was very interested in those last comments when you said you were working to try to quantify cost shifting. That would be extremely valuable. It would, in itself, be quite an achievement—for this inquiry as much as for local government—to get it all together so that we have some figures on which to base future discussions of the whole issue. Does your submission have the endorsement of all the state local government associations?

Councillor Ross—Yes.

CHAIR—In your opening remarks, you said something about not wishing to discuss the breakdown of the financial assistance grants. Is that between the states, or within the states?

Councillor Ross—The distribution of financial assistance grants is an evocative issue within our association, because the distribution of the funds means that the more populous eastern states, by way of the per capita component, receive the highest percentage of the funds that are allocated. It is an evocative issue, and we believe that the Commonwealth minister should be responsible for the distribution of those funds in an equitable way.

CHAIR—In your opening remarks you talked about a desire for constitutional recognition and you then went on to talk about the fact that you are already involved with the Council of Australian Governments and also ministerial councils and so on, which are all, I suppose, including COAG, in a practical form both Commonwealth and state. I am just wondering whether constitutional recognition is something that would make you feel more secure in the long run, notwithstanding the fact that everyone knows that local government is going to be here forever and a day, or whether there is some practical gain that you see from it.

Councillor Ross—The practical gain relates to a longer term distribution of funds. I think the basic premise is that our revenue base is narrow—there is very little growth in it—whereas the other levels of government have taxing powers. The Commonwealth certainly has the ability to levy personal income tax, excises and a number of other charges. States have a variety of means of raising funds. Our revenue base is very narrow, yet our function seems to be expanding as years go by. So a form of constitutional recognition—which, as you say, gives some certainty to us—would be a starting point for an agreement about a means of providing a top up of our finances, whether it be a share of GST or whatever. I think that that is the basic issue that goes with constitutional recognition. It is about accepting our role as a level of government and ensuring that we have the capacity to provide the services that are required of us.

CHAIR—You are talking about constitutional recognition, but already you have seen since the introduction of the financial assistance grants that at one stage local government was very keen to link that with a proportion of personal income tax. Now, because taxation has changed in Australia to some extent, you are suggesting that it be linked to the GST. I am just wondering whether a more practical outcome would be to move on that type of thing. In terms of the GST,

my second question would be whether in your discussions with state governments you have made any progress on that, since they are the recipients of the GST.

Councillor Ross—Individual state associations have had discussions with state governments. The issue seems to be at this stage that the state governments do not believe that they are materially better off. As their own financial assistance grants are being phased out, the GST funds are starting to slowly flow in, but I think the consensus among state governments is that it will be some time before they are actually better off as a result of the revenue they receive from GST. So they have certainly not been helpful in suggesting that they might share some of those funds with us, although I think we as a sphere of government would have an expectation that when the GST funds do start to flow the states may accept a larger share of infrastructure spending than they currently do. But the short answer is no; we have not made progress with the states in obtaining a share of GST. It may be difficult to do this without the Commonwealth and states agreeing that that would happen. As I understand it, the Commonwealth has legislated that the GST will flow to the states, and it would certainly require an act of parliament to change that.

Ms BURKE—If we go back a step to when the ANTS package was introduced and the GST came down, my understanding is that local government lobbied fairly hard not to be given a direct slice of the GST pie and that is why the Democrats put through specific amendments in respect of that. Are you saying that you want to rewrite that history or that is not the history or that was not your case at the time? That is my vague recollection of it. That might be unfair, but it seems to be counterintuitive to what actually went on at the time that the legislation came down.

Councillor Ross—The discussion that we had with the Democrats was that there should not be a tax on a tax and that council rates should not be subject to GST. I am not aware of anybody from ALGA ever entertaining the notion that it would not be good for us if we were to get a share of GST. Our view at the time was that obtaining two per cent of personal income tax or a percentage of GST would be equitable solutions for us. But the opportunity to obtain a share of GST was not something that was seriously put to ALGA at any stage.

Ms BURKE—But you were more concerned about the rate base being taxed again by GST?

Councillor Ross—Yes, if there had been GST levied on council rates, it would in fact have been a tax on a tax, but the rates that we charge could bluntly be considered to be a wealth tax. If you do not have assets, you are not taxed by local government.

Mr NAIRN—I thought the Queensland division actually almost did a deal with the Queensland government over a percentage of the GST that they were going to get as part of their funding arrangement with Queensland, but we were lobbied very strongly at a federal level that local government did not want to change the FAG situation and really did not trust the states passing on the GST in that sort of way, even though some very progressive discussions certainly took place in Queensland. That is my recollection of it. That is why the changes were made at the end such that the Commonwealth still funded local government directly rather than through the states.

Councillor Ross—There are two issues there. I think that the Queensland local government body was successful in obtaining for its constituent councils a share of competition payments that perhaps did not flow to some other states. The issue of whether councils were going to receive GST in lieu of financial assistance grants was one that did not progress because it was felt by our association that we were better off having the certainty of dealing with the Commonwealth government, which had enshrined in legislation a system of financial assistance grants, rather than trying to do a deal with the states, most of whom on the face of it were not receptive to providing a share of financial assistance grants. So we opted for the certainty of the system that we had rather than hoping that at some stage we may be able to do a deal with the states, because there was no consistency among the states about what they might or might not provide.

Ms BURKE—If we go back to your assertion about the constitutionality of local government and getting that for purposes of being able to raise more taxes, isn't it again counterintuitive that you did not want to put GST on rates? Are you looking at raising other revenue bases? If that is one of your arguments for getting constitutional recognition, is there another source or taxation base that you want to use via councils or is it just about having greater recognition as a tier of government and not really about taxing?

Councillor Ross—Certainly our philosophical concern was that our constituents would say, 'We're already paying the local government a tax that is charged on the property that we have. If 10 per cent were going to be added to that, it would not flow to us in any event.' It would have been an instance of local government bearing the odium of collecting a tax for somebody else. In terms of other sorts of revenue, as we said in our submission, the primary sources of revenue are obviously the rates that we charge and our user charges, which have grown quite dramatically in recent times. Again, we think that we have probably reached the limit there. There is a limit on what you can charge people to park their vehicles in council car parks and, I suppose, to use our childminding centres and so on. Those all have to be costs that are socially acceptable. So, if we are forced to increase those charges, it impacts on the communities—I think unfairly—where they are already being taxed by two other levels of government, ostensibly to provide many of those services that we are now providing.

Ms BURKE—I wish you would tell my local council that there should be a cap on what you can fine people for parking in their local areas! That would be nice.

CHAIR—You could tell the state government that too.

Ms BURKE—It is just my local council. They are getting a great revenue base straight out of me.

Councillor Ross—I am happy to make a private representation on that for you!

Ms BURKE—Thank you; you are so kind. Going back to the constitutional issue, do you believe that local governments have actually demonstrated that they are worthy of recognition within the constitutional framework?

Councillor Ross—Yes, I do, and I will ask my chief executive to respond to that in a moment. I am conscious of the fact that there are some who perhaps decry the third level of

government and what it might be able to achieve, but I think that—given its role and function and the fact that generally its finances are in good shape—it is providing a wide range of services, which is worthy of recognition. Perhaps I could ask Ian to add to that.

Mr Chalmers—We have spoken about financial issues in the context of our desire for constitutional recognition, and that emphasis has been because the most pressing problem for local government is our capacity to fund the services that are demanded by the communities we serve. Constitutional recognition has much more substantive foundations; it goes to the issue of empowerment of local democracy, local democratic decisions and locally determined priorities. Of course, you will immediately appreciate that the voters that make decisions in the context of local government elections are exactly the same people who have voted for each of you to put you in the federal parliament. There is an extraordinary disparity between the constitutional existence of the Federation, the Commonwealth and the states, yet there is no recognition of local government given that it is exactly the same voters who are involved.

As to the issue of worthiness, remember that there are 20 times more local councillors than there are members of the Australian federal parliament—20 times more. Of course, all of them are individuals, many are deeply committed and passionate individuals who can add much to the processes of local democracy, and some other individuals are perhaps less able to achieve those worthy outcomes. Indeed, we have seen the same personal flaws in this place and in each of the state and territory governments and in local councils but, because there are 20 times more people, the absolute number of those who perhaps engage in conduct that is not seen as desirable is greater. But that does not mean that local government is any less worthy of recognition than the states or the Commonwealth. The state governments have very great influence over the operation of local government. It is extraordinary that a state government can arbitrarily regulate the revenue raising capacity of local government whilst at the same time increasing its own charges on local government by perhaps double. For example, the New South Wales government has capped rate rises in that state—it is around 3.3 per cent at the moment—yet the New South Wales government levied charges on local government in that state have increased by more than double that amount.

CHAIR—I think we had examples of that yesterday.

Mr Chalmers—So that is the sort of problem that we have which we would say would not be able to continue if there were recognition of the local government in its own right within the Constitution.

CHAIR—Okay, we might move on and come back to this question of cost shifting. Take the example, which we have all heard of, where a state government brings in a new program, funds it over a number of years on a diminishing basis and then says, ‘You’ll keep going but we’re not going to give you any more money.’ Has local government considered how you might approach state governments as an association to make a case for that practice, either on the basis that you no longer provide the service if there is going to be no funding or that you put more pressure on state governments to identify and recognise the problems?

Councillor Ross—It is certainly a difficult issue and in most cases I think local government has continued providing the service. Again, while they may de facto have taken over the service, if they cease to provide it they bear the odium of taking away something that has been

provided. It is very difficult for local government to have an argument with the state minister who is responsible for legislation under which we act. So our choices are to make representation to the minister and try to have that practice stopped; have some equity introduced back into it or for us to in fact cease to provide the service and, as I say, bear the odium of the community for having taken away something that was obviously meeting a social need but which now cannot be funded by local government.

CHAIR—Do you feel you have put as much pressure for funding on state governments as we sometimes feel you try to apply to federal government? You get the impression that the federal government is seen as a source of funds, therefore the attitude is: if the state cuts out, let's go and chase the feds.

Councillor Ross—I think that we do to the extent that, where possible, we put pressure on the states—and you should not feel unduly sensitive about pressure from local government because I am sure we do not apply any more to the Commonwealth than we do to the states, but perhaps Ian has a perspective on that.

Mr Chalmers—I will just say that we are delighted to hear from you that you are feeling very pressured by us, which would have to be a satisfactory outcome from our perspective.

Mr GRIFFIN—Are you getting results from that pressure?

Mr Chalmers—Indeed, we are working hard and assiduously on this and thank you very much for the \$1.2 billion Roads to Recovery program which has been extraordinarily valuable for local government. So, yes, we have had some pretty satisfactory outcomes. Let us just say that the role of the Australian Local Government Association is to engage the Commonwealth and that is what we are doing. There are seven other state and territory associations which are engaging the state and territory governments in the same way that we are engaging you. But at the end of the day, the Commonwealth government has the largest share of revenue raising power and naturally we are going to seek to build a worthwhile share of your revenue for local government.

Mr NAIRN—Just on that point, I acknowledge that you are the Australian Local Government Association, but you are still the peak association and I presume you work very closely with your state divisions. Taking up the point that David made, what real pressure has been applied to New South Wales, for instance, which I believe continues two of the most inequitable policies—they are the pegging and not passing on national competition payments? As I understand, it is the only state that does not pass them on. What has been done in that respect by the association?

Mr Chalmers—I think that that is a question you should pose to the Local Government and Shires Associations of New South Wales when they appear before you.

Mr NAIRN—We will; but have you ever been asked to assist in some sort of campaign?

Councillor Ross—We wouldn't. It would be difficult for us to assume any right to give a direction to the New South Wales government. While we are obviously cognisant of the problems of rate capping—

Mr NAIRN—Hang on; if every other state does not have a similar policy and every other state has a policy of passing on national competition payments, I would have thought that the national association was in a very good position to assist the New South Wales association and say, ‘Hey, you’re the only state doing this to your local governments and we can represent all the other states.’ You are not going to get the South Australian local government association coming in to help the New South Wales association et cetera, but, as a national body, I would have thought there was quite a good opportunity to indicate what is happening elsewhere in Australia in a national sense.

Councillor Ross—The short answer is: we have not been invited to do that by the New South Wales association.

Mr NAIRN—I will ask Peter Woods that when we see him.

Councillor Ross—Yes. Certainly, as governments have changed, rate capping has been kept as an element of local government in New South Wales. The various ministers all make the point that, if a council needs to increase its charges, it can apply to the minister for the opportunity to do that, and the minister normally accedes to that request. That is their answer. I still think that, as a level of government, a basic principle should be that popularly elected people—as they are; people in local government are elected by the constituents of their area—ought to be responsible for raising taxes, spending the money as they see fit and being accountable to their electors for what they do. As I see it, it is an element of Big Brother that is not welcome, but is entrenched.

Mr NAIRN—Let us come back to your suggestions about different models, the proportion of GST and that sort of thing. I think we have to accept that governments of any persuasion are not going to say, ‘Well, all of a sudden, we’re going to increase taxation in the nation.’ What we are inquiring about here is the break-up of where the revenue from various taxes goes. At the moment, there seems to be very strong evidence that moneys are going from the Commonwealth to the state for certain services but, over a period of time, a number of those services or parts of those services have gradually been flicked across to local government, but there has not been the corresponding movement of moneys. If we are to get anything out of this inquiry, we really have to start tying down how we will change this. Are we going to sit down and say, ‘Right, these are the services that local government is best to deliver. Okay, some of those are currently effectively being funded by the Commonwealth to the states, so we’ve got to pull that money out of there and put it there. These are things that, maybe, local government has got involved in and really shouldn’t have got involved in. Let’s push that back to the states because that is where it was funded.’ How do you think we should proceed from here? Should we be defining these services before we can really start making any decisions about the funding models?

Councillor Ross—I think this is a really good starting point. If we can gather data that establishes the elements that you speak about, it gives the three levels of government an opportunity to engage in a serious debate particularly about our role and function, but also about theirs. I think that, at the end of the inquiry, we ought to have sufficient evidence to proceed with that debate.

Mr Chalmers—I think you have put your finger on the most difficult aspect of this problem, and that is that it is quite hard to identify and to quantify cost shifting when there is no clear determination of where responsibilities lie. That means that the existence of a cost shift will be something that is grey, given that there is no nationally agreed framework by which responsibilities are allocated across the three spheres of government. That is why it is so hard for us to give you a hard number for cost shifting, because it differs in each state and because there is no clear framework.

Mr NAIRN—Councillor Ross mentioned that you have a gut feeling or whatever that the figure might be about \$3 billion. Based on 700 local government areas around the nation, that averages out at about \$4 million per average council. We have a submission from Newcastle council, which has done some work—I am not saying that Newcastle is an average council but they are one of the few that have given a submission where they have done some serious work and put a figure on it—and it has come up with a figure of about \$2 million a year which is being cost shifted. I would have thought that Newcastle council would be much greater than the average-sized council in the nation so that figure of \$3 billion seems, in that context, a bit overstated perhaps. We obviously need to do some more work on it.

Mr Chalmers—It is a particularly difficult issue and we do not want to be tied to a particular number at the moment. It is underpinned by the absence of a nationally agreed basis upon which responsibilities are distributed amongst the three spheres of government. The committee may find it useful to investigate recent experience in Japan. There are only two spheres of government in Japan, central and local—although there are prefectural governments as well but they are perceived as local government. The Japanese government over the last four or five years has been through a similar process and identified where the most appropriate place should be for the allocation of different responsibilities. Where local government was found to be delivering services on behalf of central government and where that was seen to be the most appropriate mechanism for delivery of central government services, those services were deemed statutory entrusted functions and were specifically and separately funded. The problem of cost shifting now no longer exists in the Japanese context, and it may be worth obtaining some information from the Japan Local Government Centre in Sydney on how they went through that process.

Mr NAIRN—I think we might already have something on that.

Ms BURKE—Can we do that in Australia given the diversity and paucity of what councils take on? In your own submission it seems like it is community expectation which is driving your service delivery. That is all well and good, but if the dollars are not there then we at a federal level and our colleagues at a state level eventually have to say, ‘That would be lovely to do, but’ and local government seem to have this idea, ‘Because the community demand it, we have to supply it.’ That has come up again and again from all the submissions. I do not dispute what Councillor Ross said, that you are the closest to the community—and that is half the reason that pressure comes to bear—but we are elected by about 90,000 people. Some of your councillors are elected by a lot fewer—in Peppermint Grove it is probably three men and a dog. That is being very facetious. We had a council yesterday where 300 people would return a councillor. How do we actually define what those services are, given that there is no consistency across local government? What about the size disparity of these local governments and their service delivery? Surely that has also got to come into play—economies of scale and ability to

deliver services. To put it into context, I am from metropolitan Melbourne. My two councils are Monash and Whitehorse. Monash has 146,000 ratepayers—bigger than my federal seat. I look at it from a skewed view. I see someone come in and say, ‘We have 500 people.’ That was literally the case in WA, and also in respect of Walgett Shire Council. I am not an advocate for or against amalgamations but I do not know how we can do it. Where are the apples and apples in all this?

Mr Chalmers—Those 500 individuals have an equal right to the delivery of services to the 130,000 individuals in a larger local government area in Melbourne, of course.

Mr GRIFFIN—What does ‘equal right’ mean in those circumstances? With the whole question of distance and economies of scale, what does that really mean?

Mr Chalmers—It means that, in our democracy, we try and treat every individual in the same way.

Mr GRIFFIN—Do you think we do?

Mr Chalmers—I understand, of course, that it is just not physically possible to provide the same level of infrastructure support to every Australian. Naturally that is the case. But there are core services about health and education, to name just two, that ought to be equally provided to every Australian. Doesn’t this underscore the importance of establishing some clear allocation of responsibility? I think that there is going to be room for movement at the margins but at least, if we have a clear definition of core responsibilities allocated to each of the spheres of government and upon which appropriate financial arrangements are established, then, where individual communities seek additional services outside of the core arrangement, that is where local taxation arrangements, user-charge arrangements, need to be applied.

CHAIR—Can we just go back a step? Has the ALGA done any work to determine the different roles and responsibilities in each state as part of this whole exercise? We want to look at this question of cost shifting. There are obviously huge differences. We have just been given two examples of them—a large area council and a relatively small area, large number council in the city. Have you done any work on what are the differences between the states and territories?

Mr Chalmers—No, we have not.

CHAIR—Let us come back to this question of cost shifting. I think it is clear—and I am delighted to hear you say it—that you are going to be able to get some more precise, or reasonably precise, figures together, hopefully by the time we get to Alice Springs. That is great to know, because I think, if nothing else, we have at least got everyone to focus on the issue, to quantify it. The question that Ms Burke was asking was: why are you allowing the states continually to hand over, willy-nilly, these responsibilities and the costs of running these programs?

Mr Chalmers—I think it reflects the fact that local government is controlled by state legislation, and where state legislature enacts a law which requires a service to be delivered or charges to be levied by local government, then, at law, local government is required to adhere to the requirements of that act.

CHAIR—Given that, don't you think you still have the right to go to the state governments and say, 'We need the money too'?

Mr Chalmers—I agree.

CHAIR—But that it is not happening.

Mr Chalmers—I am not sure that it is fair—

Mr GRIFFIN—Things may have changed in the last 10 years but, speaking as a former councillor, we were doing it every other day, to both levels of government.

Mr Chalmers—I think Mr Griffin is right. There is a very great deal of activism and that activism is often frustrated. I do not think we have been able to achieve the outcomes that we seek. That is one of the reasons that this inquiry is so important.

Ms BURKE—Do you see the peak body and the state bodies as being that lobby group, or does it go back to the individual councils and sometimes the chief executive officers as being that lobbying agent, or should it be yourself and the other state peak bodies? I suppose that is what David is getting at as well.

Mr Chalmers—We are structured such that the state and territory associations' principal role is to engage the jurisdictions in which they operate. Our specific function is to engage the Commonwealth government, and that is what we do.

Mr GRIFFIN—On core responsibilities at different levels of government, in my experience local government tends to try to fill gaps that are perceived locally. Given that they are smaller units than the states and the Commonwealth, some gaps will be larger for particular services in particular areas—given the nature of the geography, demography et cetera. That is the natural implication of that. When you look at core responsibilities—and suppose we can agree on what are core responsibilities—what do you then do about flexibility, and what, if anything, should be done about it? For example, there has been some mention in the media of comments by the local government minister about the fact that there may well be a role for local government to go into areas similar to what has been done in the US. For example, it mentioned the area of policing. We could develop a situation like that in *Smokey and the Bandit*. We will have various local government areas with their own Sheriff Buford T. Justice out there dispensing law on behalf of the masses. Do you see that as a potential role for local government and, if so, would you accept that it is not a role that all local governments would be able to undertake, simply on the basis of size? If that is the case, how do you deal with that question about having a core responsibility but then having the flexibility to move into other areas? What implications would that have for service delivery, do you think?

Councillor Ross—It revolves around the capacity of local government to fund the service that is being provided. If, for example, it is in the law and order area, it would have to be by way of cost recovery. I am aware that perhaps some of the urban councils in New South Wales—Parramatta might be an example—have gone to great lengths to provide urban streetscapes that provide a measure of security. Patrols, cameras and so on are paid for by councils to give that certainty, obviously at large cost. That has to be recovered from the

ratepayers in that area. That may be an instance of filling gaps, but quite clearly there is no revenue source other than our own ratepayers to pay for that.

Mr GRIFFIN—But would you accept that in a lot of country areas particularly it is not feasible for local government to undertake those tasks?

Mr Chalmers—Yes, we would certainly agree with that. The proposition from Minister Tuckey is not one that has been sought by our association. The minister correctly identifies that there are certainly communities within Australia that have local security problems that are not adequately dealt with by the state police forces. However, we would see very significant difficulties in establishing local government run police forces of the nature you have described. It is not a direction that we would be actively seeking.

Mr GRIFFIN—In respect of the sorts of developments that have occurred in services being picked up by local government in recent years—for example, various activities around home and community care—have you any statistics on what cost is involved and the actual impact that it has had on local government?

Councillor Ross—I think that will come in the submissions from the state associations. I believe the South Australian association has tried to identify those elements, as has the Municipal Association of Victoria.

Mr GRIFFIN—Earlier, Mr Chalmers mentioned that your job was to seek a better percentage of Commonwealth revenue for local government. You may have said this—I may have missed it when I was out of the room—but what improvement do you need to ensure that, from a Commonwealth point of view, you are getting a fair shake?

Mr Chalmers—Our constituency, not surprisingly, is seeking a significant increase in funding but, realistically, if the Commonwealth's contribution through the Roads to Recovery program, which is going to end in 2004-05, is continued indefinitely then we would not be seeking an increase in the quantum above that level. The greater problem for us is—

CHAIR—Is that in total or just for roads?

Mr Chalmers—That is \$1.2 billion plus. We actually receive from the Commonwealth approximately \$1.4 billion in financial assistance grants comprising general purpose payments and identified local road funding grants which are actually untied. In addition there is the \$1.2 billion over four years, which is \$300 million per annum. That takes the Commonwealth contribution to local government to approximately \$1.7 billion per annum. We think a reasonable outcome would be to hold that quantum but to change the basis upon which it is escalated each year. The difficulty for us is in real terms—that is, as a proportion of gross domestic product, the payments from the Commonwealth to local government each year are in steady and inexorable decline. Every year, as a proportion of GDP, we receive less and less and less.

Service delivery expectations in our communities, in local councils, are driven essentially by economic growth. The Commonwealth has been particularly successful in sustaining a long period of economic growth. At the same time the Commonwealth has also been quite successful

in restraining increases in the consumer price index. The problem for us is that funding for local government essentially is adjusted annually in line with changes in the consumer price index, which falls way behind growth in the economy. Every year, in real terms, our revenue stream is declining. That is where we need to fix the problem. We are not looking for an extra \$100 million or an extra billion dollars. What we want to do is change the methodology so that we start on this baseline and it grows in line with expansion in gross domestic product.

CHAIR—If there were more direct funding from the Commonwealth for specific services, do you think that would increase the efficiency of delivery of those services by local government?

Mr Chalmers—It would certainly increase the viability of service delivery. Dollars themselves do not equal efficiencies, so there would need to be other parameters established, and we would work very closely with the Commonwealth to make sure that funding is used in the most efficacious way. Indeed, we are doing just that with the Roads to Recovery program—working very closely with the Department of Transport and Regional Services, to demonstrate that the funds are being spent as efficiently as possible to maximise the outcome. In the context of direct funding of specific functions in local government, if we were identifying the task, providing appropriate funding and establishing clear parameters and reporting arrangements then outcomes could be delivered which would be satisfactory to all spheres of government. Indeed I mentioned the Japanese experience of statutory entrusted functions. Those functions are specifically funded and they do not have the problem of cost shifting in that country.

CHAIR—In terms of those efficiencies—I mentioned it to you yesterday—Peter Morris chaired one of the parliamentary committees that looked at the efficiency of spending of money on roads. The committee identified that if there could be some predictability and longer-term commitments on road funding, the savings could be in the order of 20 per cent. This probably reinforces what you have just said.

Mr Chalmers—Road engineers will say that a dollar spent in maintenance this year will save \$10 in complete reconstruction or renewal in four years time, in a road context.

CHAIR—I suppose the next question is whether you have identified other areas where you would see advantages in the Commonwealth directing funding services in a similar way to the Roads to Recovery program?

Mr Chalmers—In regional Australia, perhaps an obvious example is health services. There is real and significant difficulty in securing primary health care services in many regional communities. Aged care services are often nonexistent. There is a massive underprovision of high and low care services in regional Australia. So, whilst in the context of the Australian health care agreement arrangements established between the Commonwealth and states, very frequently local government is left trying to cobble together some mechanism by which doctors can be attracted to and retained in regional locations and appropriate aged care facilities, and indeed acute care facilities, can be sustained.

CHAIR—There is quite a big change there. How much work have you done on that?

Mr Chalmers—I think substantive work is beyond our resources, so we cannot actually provide you with a detailed submission on this issue.

Ms BURKE—Can I ask one thing on that: is that also a bit of an overlap in terms of who is meant to be doing what? The federal government keep telling us that they are putting money in to prop up regional health. We went to WA and quite a few of the councils cited examples of what they are literally paying to hire and house doctors. I was quite amazed at the dollars, to be honest. It is not only about the cost shifting but, as you rightly say, about who is responsible, the overlap about who is meant to be delivering what and that sort of confusion.

Mr Chalmers—None of us would argue the proposition that the federation is inherently inefficient.

Mr NAIRN—Further to what the chair was saying with the financial assistance grants: Mr Ross, you said in your opening statement that you did not think it was the role of the ALGA to comment on the distribution of FAGs and how that is done. I have to say I found that a surprising comment, because I would have thought you were in a very good position to comment on the methodology. I would have thought that, as a federal government, we would be interested to know how you think we could do it better, if there is a better way to do it.

Councillor Ross—I am bound by a federation. Perhaps it is a matter of tribes who are all bound in their own mythology, but the reality is that, if I were to suggest a more equitable distribution of that fund—or one that I think is fair—it would require a change from those states who are perceived to be doing better out of it than others at the moment. So, in terms of politics, it is very difficult for me to say to my member states, ‘This is how it should be split up.’

I would also like to say that, while we acknowledge that the Roads to Recovery fund is a most important one and it is appreciated by local government, the genesis of the fund was a meeting that we convened at Moree two years ago to look at the problem of funding rural roads, which are perhaps declining faster than roads in other parts of Australia. The proposition was that we could provide data to the Commonwealth to ensure that we may be able to fund those roads to a level where local government could be seen to be promoting regional development, contributing to transport reform and, in fact, helping with competition policy.

When the Commonwealth decided on the quantum of those funds, I had a discussion with the minister and it became quite obvious to me that, if those funds were to be spent where they were most needed, he would certainly be accused of pork-barrelling. So the distribution of those funds was by a grants commission formula, which meant that large urban councils who perhaps did not have the same need got the proportion of funds they would have been entitled to if that had been by way of a financial assistance grant. It is very difficult, when we are looking at how we split funds up, to ensure that they actually can be targeted to where they are most needed.

Mr NAIRN—So are you saying that, because of the way in which the Roads to Recovery money was split up, the most needy areas did not get as much as they probably should have?

Councillor Ross—They all got something, but I think that, if we had been able to look at where the priorities were in a bipartisan manner through the three levels of government and

agree on how that money might have been distributed to take the political acrimony out of the decisions, nationally we would have got a much better result.

CHAIR—Can you suggest how that could be done? We are all conscious of it.

Mr NAIRN—We are all conscious of it. Even with that decision being made, supposedly to avoid the politics of it and the accusations of pork-barrelling, we cop the accusations of pork-barrelling anyway. So perhaps it should have been done the way it should have been done in the first place.

Mr GRIFFIN—With the money from government advertising for it, too!

Councillor Ross—We had a particular problem, because many of our rural roads were built pre the Second World War. Obviously the freight transport task has increased, the size of vehicles has increased, and we all know that the roads were not designed to take those heavy loads. As the roads have begun to deteriorate we have addressed the problem. But only in recent times have we been able to develop data that all of the states agree on so that we can start identifying the priority areas. Again, it causes a substantial amount of argument between the states as to what a priority area is. We had to get common data to develop a case and argue persuasively with the Commonwealth so that we could provide the minister with reasonable information and he could then argue with his cabinet colleagues for an allocation for that purpose.

It is work in progress, and I think perhaps a year or two down the track we will be able to say, 'These are the areas that are real matters of priority.' We will need to get agreement between the three levels of government on that. In some states we have been able to get regions of councils to agree to spend Roads to Recovery money so that it contributes to a common cause. For example, if an arterial road moves through their region, it will be funded and they will all obtain a benefit from it. In a number of instances, a lot of councils—and we obviously applaud the autonomy of councils—have spent money on footpaths and on upgrading heritage areas and so on. It will have been badged as Roads to Recovery money, which will be an embarrassment to the minister and to me.

CHAIR—That was a very frank answer.

Ms BURKE—If we extrapolate from your answer and we go back to the question of FAGs again, would it be more beneficial to rewrite the whole process and do it on a needs basis as opposed to the current formula? Is there an opinion on that? If we do not do that, then are we at least looking at the minimum payments that councils are getting? Again, that does not equate to any sort of needs basis but just an inherent political argument over time.

Councillor Ross—The genesis of the FAGs payments was that councils across Australia ought to be able to provide a common level of services, and the council with 500 electors should have an expectation that there would be a reasonable level of service delivery. The other aspect of course was the equity argument that councils provide infrastructure that might be used for people in transit who do not contribute anything to that infrastructure, so it was a means of providing a top up of funds to local government. How we identify the need is something that will tax the imagination of levels of government forever. Certainly, we would be comforted with

a notion that distribution could be based more on need than on a formula where everybody gets something.

CHAIR—Do you mean that you would still support the minimum grant, or do you think that it is past its use-by date?

Councillor Ross—I think that we have to support all councils obtaining a grant.

Ms BURKE—If we reverse that 500 argument, my council can obtain money because it has a rate base and it has industry and economics—and I suppose we should take the council that everybody cites, Brisbane City Council. It is getting a minimum payment which is a nanofraction of its overall funding base—its spending capacity—whereas the predominant funding of a council with 500 electors probably comes from the FAGs. So I suppose that is the opposite argument to the one that I was mounting before. Is the minimum payment sustainable, given the growing needs diversity and also the realisation that more money is going into services than into maintenance of roads, as you quote from the Commonwealth Grants Commission? As you so articulately said, Mr Chalmers, unless we spend the money on the maintenance of roads we will have a growing problem further down the track. I suppose the question is: can we recognise a needs basis, and should we do so, as opposed to just saying, ‘Everybody deserves a bit of the pie?’

Councillor Ross—The per capita element of the distribution is the greatest impediment to that, but that is the one that is supported most by the eastern states councils and associations.

Mr Chalmers—I think we would certainly be attracted to some consideration of whether or not the Commonwealth might fund councils directly rather than through the state grants commissions. There are obvious and quite extreme disparities between similar communities located in different states, and that is quite obvious from the Commonwealth Grants Commission’s own reports. Our inability to comment specifically on the methodology is underpinned by the fact that, whatever we say, we will contravene the views of some of our constituents.

CHAIR—We can relate to that.

Ms BURKE—Join the club.

Mr Chalmers—You understand the situation. From our perspective, the direct funding approach that is used in Roads to Recovery has been highly successful. We could do it better, and in further rounds of this program we are committed to working closely with the Commonwealth to improve the quality of outcomes. But 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.

Mr NAIRN—We have had a number of submissions from councils which raise the issue of unrateable land and the increasing amount of unrateable land. While I know that that is supposedly taken into account within grants commissions, I suspect that it is probably either

falling behind or not being fully taken into account. Are there big differences between the states with respect to that and the way in which state governments work in regard to definitions of land that is unrateable? The other point that was raised by one of the submissions was about state government business enterprises not paying rates but, at this stage, nobody has been able to give me examples of those. Can you provide any information with respect to those two matters?

Councillor Ross—I will make some observations about that. There are probably two categories of unrateable land. One of those may be the latter one that you mentioned, where land may be occupied by state and federal governments, and they have not previously paid rates. I think that that issue is being resolved and, generally, rates are being paid. But there are also large areas of crown land within council areas that impose on the council the cost of maintenance but from which there can be no return other than the aesthetic value. I suppose that impacts on local government and might be something where we could say that the state perhaps also has a responsibility. But we probably need to take that on notice and provide you with some more detail there.

Mr NAIRN—There are a couple of other things I want to raise. The table that you provide for local government expenditure, going back from 1961-62 to 1997-98, was quite instructive. A lot of the discussion we have had in relation to cost shifting and additional pressures on local government seemed to stay around the community service area. For most people, that is the sort of thing that comes to mind when you talk about the things that local government are doing more today than they were some time ago. I thought it was interesting that by far and away the biggest increase in expenditure by local government is in the recreational area. Recreation and culture has gone from 7.9 per cent to 18.3 per cent, whereas the education, health, welfare and public safety area has gone from 3.8 per cent to 11.6 per cent. I thought that was quite a dramatic difference.

The other one that stood out to me was that services to industry have only gone from one per cent to 1.6 per cent. Probably not the biggest complaint but up near the top of complaints that I often get from business about local government is the amount of red tape. It seems that when you rock up to the counter you get told all the reasons why you cannot do something first rather than the reasons why you can. At the same time, I am often being lobbied by local government about additional assistance to create economic development, and I think, 'Well, here are all these opportunities on their doorstep that they seem to be frightening away.' It seemed to fit a little bit with that context, I have to say, when I looked at those sorts of expenditures, where there has been minimal growth as a percentage of the overall expenditure in services to industry, but there is some quite large growth in the recreation area. Would you like to make some general comments about those sorts of changes?

Councillor Ross—Yes, certainly. In terms of cost of service delivery to industry, our role is to create an environment where industries should be able to flourish within our council areas. While councils probably often are vilified for withholding planning consents and so on, they have to be decisions made locally. That may be something of an Achilles tendon for local government, but they attempt to do it honestly and I suspect that most times they get a good result, although it might take longer than developers would want.

With sport, I think it is probably fair to say that local government subsidises sport in every state. If I look at the cost to local government for providing sporting venues in my home state, it is a considerable amount. In my own council, we remit rates to all the sporting bodies. There is no charge imposed on sporting bodies. Often we obtain loans for them through our local government finance authority at concessional rates. Sport is one area that is probably, again, as Mr Griffin said, an area where we fill a gap because we are closest to the people and because it is something that is part of the local culture, and we have to make sure that we provide facilities wherein the sport might be played.

Mr NAIRN—I should have qualified my comments about some of the difficulties that business has, in that I am well aware that governments of all political persuasions over the last decade have also imposed some huge burdens on local government in the way in which they can deal with planning and development issues, which is often the reason why people get a negative feeling about doing something rather than it being seen positively.

Councillor Ross—Could I follow up on the planning issue. During my term as President of the South Australian Local Government Association, there was a lot of criticism from industry that councils were perhaps being capricious in delaying planning applications and that it was taking too long for consents to be approved. So we employed an independent consultant to collect data from councils within South Australia to find out how long it was taking them to process the development applications. It turned out that the average time for a council to process a development application was 18 days. In the metropolitan area particularly, and in a lot of rural areas, the applications required consent from state government departments, some of which took six months. Again, it was a case of a developer making an application to an individual council. Council did its work but it was not able to approve the application until all the consents had been provided by the state government. We were able to take that matter up with the state government and the relevant minister at the time took that on notice and was able to improve it dramatically. But it was an instance, again, where we were bearing the odium of a decision that took too long to make, having made our own decision in a relatively short time.

Mr Chalmers—On the question of increases in expenditure on education, health and welfare as compared to recreation and culture, in simplistic terms expenditure on education, health and welfare has essentially trebled over the period whilst expenditure on recreation and culture has a little bit more than doubled over the same period. The increases are as you would expect them to be. Importantly, there is quite a significant amount of expenditure on the recreation and culture area, and it reflects the range of services that are provided by local government which could broadly be described as contributing to the strengthening of social capital within communities. Social capital relates to the degree of connectedness, the sense of belonging and the substantive sense of community and identity that local government is increasingly seeking to enhance. By providing opportunities for people to associate, share ideas and work together for the benefit of community, we actually strengthen the fabric of the Australian community in the broadest sense. Of course, these columns reflect some definitional issues. What is actually there is that we collectively provide more public libraries than any other organisation in Australia. There is a very considerable emphasis on enhancing opportunities for artistic creativity through the provision of community arts centres. That has been quite a rapidly escalating and important dimension of local government's work which, in the past, would never have been seen to have been relevant in an environment of 'roads, rates and rubbish'.

Mr NAIRN—Would the ALGA support a system of accreditation for councils? Have you got a policy position that?

Councillor Ross—That has become par for the course within most councils. Councils throughout Australia publish annual reports and, while accreditation might not be defined as such, a number of councils are taking issue with that now. I think that that is something they are prepared to do by way of self-regulation. Accreditation issues really relate to accountability, so that should not be seen to be an impost on councils.

CHAIR—If you were to accept a system of accreditation that demonstrated an ability to perform certain tasks, the follow on would be: do you see a role for local government to deliver fully funded services on behalf of other tiers of government?

Councillor Ross—I will probably have to give a convoluted answer to that because I suspect that the ultimate judgment on the value of the accreditation comes when we face our electors. If a precondition for us achieving federal funding was that we have a system of accreditation, our electors would possibly ask us whether the other levels of government had placed the same constraints on themselves. The notion does not particularly offend me because I think we need to be accountable, but there would be some community perception of a double standard if the third level of government, or our level of government, had imposed on us a performance requirement that the other levels of government did not voluntarily subscribe to.

CHAIR—I think we probably do in other forms. The Charter of Budget Honesty it is not—

Mr GRIFFIN—Perhaps that is the cost of being the level of government closest to the people and therefore having to face the practical question of how you implement it, and being in a situation where, rather than a handful of states and one Commonwealth government, there are a myriad of relatively independent entities. All that actually leads to issues of accountability to a greater extent, I think.

Councillor Ross—It does occur to me that there is no prerequisite for entry to any level of government in Australia other than, I suppose, not having a criminal record.

Mr GRIFFIN—But you have to be a citizen.

Councillor Ross—It was also put to me recently by an English politician that there are only two things that you can do in your life and enjoy without there being any prerequisite: to enter politics or to engage in sexual activity. Let me just return to the point that Mr Nairn made about expenditure and recreational areas. They include art galleries, cultural centres and libraries and have been something of a growth area. Just picking up again on the point that Mr Griffin has made about filling gaps: the gaps are not necessarily those imposed on us by other levels of government. I think you have to accept that, with the withdrawal of services from commercial organisations, particularly banks, inevitably we have filled those gaps. Whether we are able to recover the costs for that is debatable. Many councils are providing banking services, and the notion that I have put to councils is that if the banks are unable to operate that service profitably, it is unwise for councils to be providing the service. If a bank wants us to put in an in-store facility for them they ought to be ensuring that council's costs are recovered and, in fact, that something might go with that as well.

Mr GRIFFIN—Absolutely.

Councillor Ross—That is a difficult area. To touch briefly on what we perceive to be some elements of Commonwealth cost shifting, we are really grateful for NTN funding, for the regional transaction centres and Centrelink, but councils normally fund the staff positions. In most cases we provide the infrastructure and maintain it. With NTN we provide the telecommunications infrastructure. Again, it is a matter of filling gaps and, while the community sees this as being a viable service and local government is certainly happy it is happening in its area, there are costs that inevitably flow to local government as a result of that.

CHAIR—In your submission you talk about the requirement on other spheres of government to provide exemptions, concessions and rebates to pensioners, low income earners and disability support recipients, amongst others, with no compensation payment. Have you done any work to quantify that?

Councillor Ross—It varies from state to state. Pensioner concessions in South Australia are offered by all councils. The state requires that but the state actually funds the cost of those pensioner concessions. I understand that in New South Wales the state funds about half of the cost of the pensioner concession. So there is a disparity between what each of the states does and obviously it affects some states more than others.

CHAIR—Thank you very much for coming before the committee today. It has been a very valuable session and we certainly look forward to catching up with you in two months time. There were three Victorians here. In passing, I note the date of your time in Alice Springs—having worked out what is happening at the beginning of November in Melbourne.

Councillor Ross—I should say that there will be television there and that major event will be available for everybody.

Resolved (on motion by **Mr Nairn**, seconded by **Mr Griffin**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

CHAIR—Again, thank you very much for your submission and for coming before the committee today. I am sure that we will be able to have another meeting or even an informal private meeting.

Councillor Ross—Thank you. We appreciate the opportunity to appear before you. We are prepared on any occasion to provide supplementary information if you wish to obtain it from us.

Committee adjourned at 10.50 a.m.