

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].¹
- 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.²
- 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.³
- 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.

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.⁴

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 service⁵

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.⁶

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.⁷

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

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.⁸

- 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;⁹
 - 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;¹⁰ 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.¹¹

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.¹²
- 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

Council	State	Classification	Estimated annual cost shift
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.¹³
- 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.¹⁴
- 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.¹⁵
- 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.¹⁶
- 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.¹⁷

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'.¹⁸
- 3.30 ALGA also saw significant difficulties in establishing local government run police forces and it was not a direction ALGA would be seeking.¹⁹
- 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.²⁰ Councils in other States referred to the costs of collecting fire and emergency services levies on behalf of the State government.²¹
- 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.

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.²² Many other councils around Australia provide incentives, such as accommodation, to attract doctors to their area.²³
- 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.²⁴
- 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 2000-01.²⁵

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.²⁶

- 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.²⁷

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.²⁸
- 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.²⁹
- 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.³⁰

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.³¹

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.³²

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

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.³³

- 3.48 Some councils in NT referred to the high costs of maintaining airstrips.³⁴ 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.³⁵

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.³⁶

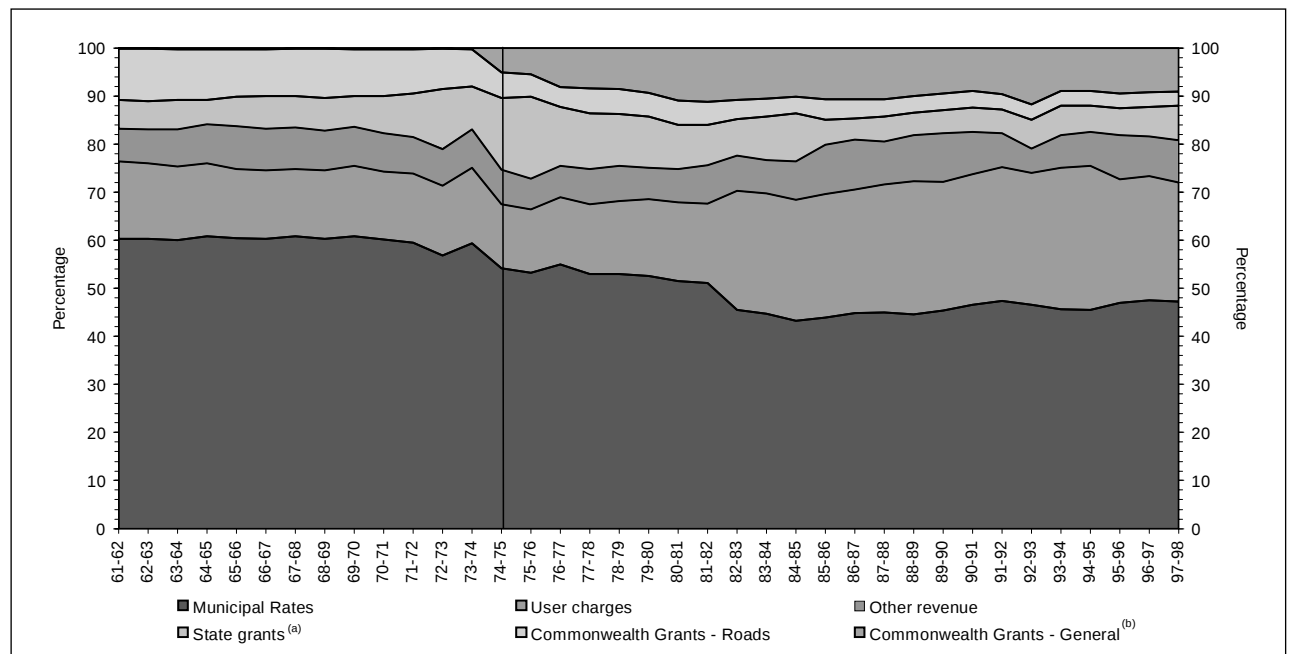
- 3.51 The steady growth in FAGs and other forms of Federal funding to local government has been accompanied by a relative decline in State support.

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 1997-98.³⁷

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).³⁸

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).³⁹

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
Average Annual Growth	3.0%	6.4%	4.5%	4.3%	0.4%

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.⁴⁰

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.⁴¹

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.⁴²

- 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.⁴³

- 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.⁴⁴

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.

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.⁴⁵
- 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 Ngaanyatjaraku 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.⁴⁶ 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.⁴⁷
- 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.⁴⁸

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.⁴⁹

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.⁵⁰

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.⁵¹

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

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.⁵²

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
Average Annual Increase	6.9 %	2.6%

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.**⁵³ 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.⁵⁴

- 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.⁵⁵
- 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.⁵⁶
- 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.⁵⁷
- 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

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.⁵⁸

- 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.⁵⁹

- 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.⁶⁰

- 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.⁶¹ 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.⁶²
- 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.⁶³ At the same time, there may be room for further

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.⁶⁴
- 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.⁶⁵
- 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,

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.⁶⁶
- 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.⁶⁷
- 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.⁶⁸

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.⁶⁹

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.⁷⁰ 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.⁷¹ 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.

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.⁷²

- 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*.⁷³
- 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.⁷⁴
- 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.⁷⁵
- 3.105 WALGA also referred to church groups, indigenous communities and other community groups which seek exemptions from rates. Councils

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.⁷⁶ 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.⁷⁷

- 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.⁷⁸
- 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.⁷⁹ 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.⁸⁰
- 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.⁸¹
- 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.

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.⁸²
- 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.

82 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.⁸³

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.⁸⁴
- 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.⁸⁵ LGMA also called for State and Federal government legislation to be subject to local government impact statements.⁸⁶
- 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.

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.⁸⁷

- 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.⁸⁸
- 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.

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.

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.⁸⁹
- 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.⁹⁰
- 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.⁹¹ Also, the ANAO recommended that formal agreements include program goals, performance indicators, targets and sanctions to facilitate the effective management of SPP programs.⁹²
- 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.⁹³
- 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.⁹⁴ 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.

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.⁹⁵

- 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.**

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