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22nd July 2002

The Secretary
House of Representatives
Standing Committee on Economics, Finance
and Public Administration
Parliament House
CANBERRA ACT 2600

Dear Secretary

Re: Inquiry into Cost Shifting onto Local Government

Reference is made to the above inquiry and Council's desire to lodge a submission.

This inquiry is an important opportunity to fundamentally review the roles and responsibilities of Local Government.

Notwithstanding Council's disappointment that the inquiries terms of reference fail to adequately consider the issue of cost shifting from the Commonwealth to Local Government, and the installation of a caveat that the inquiry is to be budget neutral, a submission is enclosed.

Thank you.

Yours faithfully,

(Glenn Inglis)
GENERAL MANAGER

Encl.

PARRY SHIRE COUNCIL

**Submission to
House of
Representatives
Inquiry into**

**Cost Shifting on
Local Government**

**Prepared by
Glenn Inglis
General Manager
Parry Shire Council**

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1 Introduction

It is critical that local government becomes increasingly relevant, efficient, viable and participatory in the Australian system of government. Its functions, responsibilities and governance dynamics can have a significant impact on the economic and social future of communities, in particular, rural and regional.

Local government in this inquiry must not be visualized or perceived as structures and legal arrangements, local government is about people and communities.

Local government is exceptionally positioned to act as the 'government of the locality', by acting as a conduit and facilitator for a wide range of government actions, and being a catalyst for networking communities with broader regional, national and international organisations and structures.

Local government is an unique organisation in a political, social, legal and economic sense. It is the only organisation at a local level that potentially represents the entire community. In every community there is a myriad of organisations: service groups, cultural groups, church groups, sporting groups, youth groups, aged groups and special interest groups. Local government is the natural bond or interface between these disparate forces. It is the linkages, dynamics and energy of these citizen groups that builds a communities stock of social capital and ultimately determines a communities well-being and prosperity.

Local government is the sphere of government ideally placed to build social capital by initiating and applying a wide array of participatory and democratic practices. Citizens have a certain affinity with their local councils, a sense of ownership that does not exist with higher levels of government.

The justification for this new role for local government, is simply that the problem situations of modern society are complex, ambiguous and dynamic, and it is only by active and real citizen engagement that effective community goals and sustainable problem-solving solutions can be developed.

If we want to seize the immense opportunities provided by this new problem solving role for local government, we need to ensure local government has the capacity to meet the challenges.

This inquiry provides an important opportunity to clearly articulate the totally inadequate financial base and resource capacity of local government, to not only meet existing obligations, but to take on a new and expanded role.

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**Local Government's Current
Roles and Responsibilities**

Local Government comprises democratic institutions operating under State and Territory legislation that underpins and provides the rudder for the Australia system of government at the community/local level. It is the principal means by which citizens, local communities and increasingly regional communities express their identity, enhance their social and economic well-being, care for their environments, and engage with higher tiers of government.

The need for effective local government has never been greater. Many local and regional communities face great uncertainties.

Major challenges include:

- Maintaining the quality of community life and community cohesion whilst coping with far-reaching economic, social and institutional change.
- Ensuring adequate services and safeguarding environmental quality, especially in areas of rapid growth or economic decline.
- Promoting soundly-based local and regional economies, and ecologically sustainable development.
- Making more efficient and effective use of resources against a background of severe financial constraints.
- Bringing about social justice and reconciliation with Australia's indigenous peoples.
- Maintaining local identity in order to retain a sense of community in an increasingly globalised society.
- Maintaining social cohesion within communities.

Local government in Australia plays an important role in the Australian

economy. In 1999-2000 Local government had a revenue base of over \$16 billion (about 2.5% of GDP), with about 37% of its income derived from taxes (principally rates), about 32% from sale of goods and services, about 13% from grants and subsidies, 3% from interest and 16% from other sources. [1]

Local government employs close to 140,000 people in 727 local authorities, with responsibility for infrastructure worth more than \$130 billion.

Constitutional responsibility for local government rests with the States and Territories, which provide the statutory framework for Council's operations. Local government is not recognised in the Australian Constitution and the Federal Government's role principally focuses on monitoring functional performance pursuant to the Local Government (Financial Assistance) Act 1995.

Local Government's role and scope of responsibilities has expanded significantly in the last few decades, a brief summary being:

- Significant devolution of functions from other government spheres;
- Market deregulation;
- National competition policy;
- New technologically environment;
- Industrial relations reform;
- Privatization of public utilities;
- Increasing community expectations;
- increasing service delivery standards imposed by legislation, for example environmental, safety, administrative and quality;
- withdrawal of services by other government spheres although still required by communities, for example health and community safety.

The scale of service provision by local government varies between the states, however some common services include:

- construction and maintenance of key infrastructure including roads and bridges, drainage, waste management;
- regulation of local communities including inspection, licensing and regulation of food premises, buildings, commercial development, heritage and animal and noise control;
- environmental planning and management;
- provision of services such as child care, libraries, cultural, aged accommodation, disabled, youth and recreational;
- an advocate and leader for the community;

- an agent for service delivery on behalf of other spheres of government; and
- information broker.

In summary, local governments roles and responsibilities are such that they have a significant impact on the economic and social future of communities.

Terms of Reference No. 2.2	Current funding arrangements for Local Government, including allocation of funding from other levels of government and utilization of alternative funding sources by Local Government
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There is a relatively complex financial relationship between the three tiers of government. These complexities manifest themselves as a result of inappropriate institutional arrangements and overlapping roles and responsibilities. Whilst respective taxing powers are well defined and understood, the exact role of local government is not, hence duplication and overlap is rife.

In New South Wales Local Government finances are under enormous stress, in particular for rural shire councils. Local governments ability to deliver services and maintain essential infrastructure is at its lowest ebb.

Rating is the only taxation measure available to Local Government and accounts for an average of approximately 50% of total revenue. This narrow taxation base places a severe restriction on a Local Governments capacity to raise revenue generally. Further, the rating base varies significantly between Local Government areas, an aspect only partially addressed by the Horizontal Fiscal Equalisation (HFE) principles of the Local Government grants process. Unlike Commonwealth and State Governments, Local Government does not have the flexibility to spread its taxation effort over a suite of taxation tools. The situation is exacerbated by the rate pegging system introduced in 1978 in NSW, the only State in Australia to have such a system.

Under the current system of rate pegging, the approved percentage increase frequently does not even match the CPI increase. The approved increase in general income for 2001/2002 was 2.8% and for 2002/2003 3.3%. Local government salary and wage increases last year and in the current year are 4%

- 5%. It should be noted that wages and salaries comprise some 60% of Local Government operating costs. Additionally, other cost burdens have been imposed on Local Government in a manner, which does not allow it to recover those costs except to the extent of the respective rate pegging revenue increase.

Insurance premiums are rising dramatically at the present time and indications are that further increases will occur over the coming year. The HIIH collapse, international events and natural disasters have exacerbated insurance premium increases. Councils are currently facing insurance premium increases of over 50% to 100%.

Some government instrumentalities also have the power to levy a charge on Local Government to fund their own operations. Such organisations include the NSW Fire Brigade, Rural Fire Service and Resource NSW. Frequently, these charges exceed the rate pegging limit imposed upon councils. For example, the NSW Fire Brigade levy for 2002/2003 has increased by 14.4% for local government.

In Parry Shire Council's case for example, the result for 2001/2002 and 2002/2003 regards rate pegging and award wage increases is as follows:

2001/2002

Income raised from 2.8% rate increase	\$75,000.00
Increased costs from award wage increases	<u>\$147,364.00</u>
Deficit	<u>\$72,364.00</u>

2002/2003

Income raised from 3.3% rate increase	\$90,000.00
Increased costs from award wage increases	<u>\$194,074.00</u>
Deficit	<u>\$104,074.00</u>

Source: Parry Shire Council Financial Accounts

The restricted taxation base has led to a growing reliance on fees and charges but this recourse is reaching its limitations. User charges are the second largest source of revenue and already represent 27% of Local Government operating revenue in NSW. [2]

Through its application of user fees and charges Local Government already achieves a much higher cost recovery ratio than other spheres of government. On national basis, the cost recovery ratio for Local Government is 36.8% compared to ratios of 4.3% for the Commonwealth and 12.2% for the States. [3]

This partly reflects the type of services provided by Local Government. However, it also suggests that Local Government is already maximizing its use of user fees and charges and that there may be limits to the extent that Local Government can increase its cost recovery efforts. Apart from general community resistance to ever increasing fees and charges, there are important equity and governance considerations. Many council services and products are social goods and therefore by their very nature cannot be provided on a cost recovery basis. Further, the opportunities to raise revenue in this way vary significantly between councils.

Parry Council for example, has undertaken considerable effort in increasing its cost recovery ratio for services, as shown below:

	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/2001
Revenue derived from fees and charges as a % of total	14.48%	17.42%	18.16%	22.11%	19.03%	22.82% (est)

Source: NSW Dept of Local Government Comparative Information.

Grants are the third major source of revenue for Local Government, with Commonwealth Financial Assistance (FAGs) representing 8.6% of total operating revenue for councils in NSW.

Grants to Local Government have continued to decline as a share of GDP over the past 20 years and currently represent around only 0.4% of GDP. [4]

Financial relations between the Commonwealth and Local Government are characterized by the significant difference between the revenue-raising and expenditure responsibilities of the two spheres of government. This mismatch of spending and taxing powers is known as vertical fiscal imbalance (VFI).

Local Government taxes do not grow at the rate of other taxation regimes available to the Commonwealth, States and Territories. This leads to a worsening of VFI between the Commonwealth and Local Government.

FAG's are currently being maintained from a reduced base in real terms per capita with no foreseeable prospect of an increase.

FAG's have been provided by the Commonwealth to Local Government since 1974-75. Their primary objective is to attenuate VFI and strengthen Local Government, enabling the provision of a wider range of services while promoting both financial equity between councils and certainty of funding.

The quantum of Local Government FAG's are indexed annually, via an escalation factor determined by the Treasurer on the basis of changes in the level of inflation and population changes in each state. Thus, FAG's grow at a rate significantly less than that of GDP or Commonwealth taxation revenue. This methodology is an unfair and discriminatory mechanism of sharing the nation's tax resources.

In the absence of an equitable FAG's escalation methodology, a serious VFI gap is emerging. This widening VFI gap is undermining the financial viability of Local Government.

The Commonwealth Grants Commission has found that State Government grants to Local Government have progressively declined in relative importance since the introduction of FAGs in 1974-75. [5]

Within this constrained financial environment Local Government has had to cope with new and increased responsibilities. The Commonwealth Grants Commission has also acknowledged this fact. [6]

ABS Government Finance Statistics data [7] supports this conclusion clearly demonstrating a shift in the composition and by inference, an expansion in the range of services provided by Local Government over the past 25 years. In that time there has been growth in expenditure on human services, with increases in education, welfare and public safety services. There has also been an increase in the relative importance of recreation and culture and housing and community amenities.

While not highlighted as a separate category in the Government Finance Statistics, it is also clear that Local Government activities in the areas of the environment and planning have also expanded substantially, particularly in recent years. Expenditure on roads remains as a major category of expenditure and continues to grow in real terms, but has declined as a proportion of overall expenditure.

The growth in responsibilities for local government has largely resulted from:

- devolution – new and expanded responsibilities imposed by other spheres of government;
- 'raising the bar' – where increased standards or complexity of service provision are imposed by other spheres of government or the community itself;

- direct cost shifting where Local Government agrees to provide a service on behalf of another sphere of government but funding is subsequently reduced or withdrawn, with Local Government having to maintain the service because of community needs and expectations;
- indirect cost shifting where another sphere of government ceases to provide a service that the community needs and Local Government is obliged to step in (abrogation of responsibility);
- increasing community expectations.

The fact Local Government has met these increasing responsibilities in varying degrees while subject to severe financial constraints is evidence of a sustained increase in productivity in Local Government over the past 25 years.

Local Government expenditure has remained constant at around 1% of GDP during this period. [8] This also suggests that the scope for meeting further demands in this way, while not exhausted is likely to be subject to diminishing returns.

Another area of great concern is the allocation of National Competition payments. The NSW government continues to refuse to allocate a share of the states competition policy payments to Local Government. Local Government is making a direct contribution to the reform process and is responsible for a substantial proportion of the benefits expected to be achieved.

A primary thrust of national competition policy involves the reform of government trading activities and Local Government has a significant role in the process. Local Government has accepted the principles of competitive neutrality and council trading undertakings are being restructured along corporate lines. This is most significant in water and sewerage, as Local Government is largely responsible for the provision of services outside the areas covered by the Sydney and Hunter Water Corporations.

Another key element in the process is regulatory reform, particularly in relation to business regulation, planning and development approval processes. Local Government has been generally supportive of these reforms and is making a considerable investment in the technology and processes required to effect the reforms.

In addition to the organizational costs associated with implementing NCP, Local Government has also suffered direct financial impacts from reforms instituted by other spheres of government. These costs have been disregarded in the reform process. These costs have arisen as a result of NCP driven reforms in the electricity, gas, road transport and water sectors. Local Government is making its contribution to the reform process but this contribution is not being explicitly recognised.

The stance of the NSW Government is at odds with advice from the Federal Government that suggests a proportion of the NCP payments to each state government is intended to offset any up front costs borne by councils in implementing competition policy reforms which have a lasting benefit.

The position contrasts with the position taken by the governments of Victoria, Western Australia and Queensland where Local Government has been allocated 9%, 4% and 20% of their respective competition payments. These governments have recognised the substantial role played by Local Government in the implementation of competition policy principles. They have also seen the opportunity to promote the reform process by providing incentives to Local Government.

The NSW government received over \$284m in competition payments for the year's 1997/1998 to 1999/2000. The Commonwealth Budget papers show that NSW received a further \$156m in 2000/2001 and is set to receive a further \$241m in 2001/2002. Under current arrangements there will be further increases through to 2005/2006.

In summary, the evidence proves that the current financial situation is not sustainable in the long run and for many rural and shire councils in the medium term. While the situation is one that needs to be urgently addressed by all spheres of government, there are certain immediate actions required by State and Federal governments. Not to act risks serious failures in service and infrastructure provision, and of even greater significance, is the fact that failure to act will permit the continued failing fortunes of many rural communities.

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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.

The capacity for local government to take on an enhanced role in developing opportunities at a regional level is immense, if it is properly resourced which currently it is not.

Notwithstanding, the need to think regionally has never been more important, in particular if rural Australia is to survive economically. Governments and policy makers must recognise that regional strategies developed from a “bottom-up” approach are required to ensure effective and efficient delivery of social goods and services and domestic and international economic competitiveness.

Localities must take an active role in addressing issues of economic well-being and quality of life. Local government if adequately resourced and given access to a stable and inbuilt growth revenue base is well placed to deliver on this objective. Local government through a regional approach can tackle the wider issues of regional economic integration and prosperity. Such an approach will significantly contribute to Australia’s economic competitiveness and export performance in the context of an increasingly integrated global economic system.

There exists at the local and regional levels throughout Australia, an untapped and tremendous desire and potential to participate in positive economic change. This is a recurring theme of the many recent studies and reports commissioned by governments on employment and economic development issues.

Such studies inter-alia, have highlighted the growing importance of the role of local government and community economic development – that is, local governance and the process of identifying and harnessing local community resources and opportunities to stimulate sustainable economic growth and employment activity.

Two key concepts are worthy of note, that underpin both the philosophy and practice of community economic development. These are:

1. Community economic development builds upon the simple premise that a community has within itself, or within its grasp, considerable capacity and opportunities to influence its economic future.
2. Community economic development is not a panacea for all the problems and changes impinging on local communities. Rather, it must be viewed as a complementary strategy to broader state, national and global influences, which will still be the major determinants of wealth and job creation in any community. However, community economic initiatives enable a local area to respond to these wider forces, to adapt them and to capture potential opportunities; and community economic development calls for a new way of thinking about the nature of public leadership by all spheres of government. The challenge is best illustrated by the growing prominence being given to the concept of New Governance.

New governance in brief involves:

- Engaging and enabling others through participation and consensus – building rather than directing;
- Activity that is mission and vision-driven, rather than program driven;
- Creating opportunities, rather than reacting to problems;
- Acting in an entrepreneurial mode with flexibility, innovation and experimentation, rather than in an hierarchical manner;
- Measuring success by results achieved, not inputs applied; and
- Investing resources for long-term benefits, rather than spending for short-term payoffs.

These characteristics provide the challenges for public leadership and the foundation for effective participation, and co-operation of Government and its broader community, in economic development activities. Local government properly resourced and supported by State and Federal Governments can provide this new governance.

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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

For NSW, the full financial impact of devolved responsibilities without commensurate resources, or unfunded mandates as it is commonly referred, is taking its cumulative toll on local government.

Examples of recent legislation introduced in NSW and directly impacting on local governments financial capacity are:

- Protection of the Environment Operations Act
- Local Government Amendment (ESD) Regulation
- Stormwater Management Planning
- Local Government (Approvals) Amendment (Sewage Management) Regulation
- Waste Minimisation and Management Act
- Contaminated Land Management Act
- Environmental Objectives for NSW Waters
- Marine Parks Act
- Companion Animals Act
- Local Government (Community and Social Plans) Regulation
- Waste Avoidance and Resource Recovery Act, 2001
- Occupational, Health and Safety Act 2001 and Regulations.

Increasing costs are also being incurred in areas such as:

- Town planning and building regulation
- Street lighting charges
- Total Catchment Management
- Provision of public health infrastructure support, such as facilities and services to attract general medical practitioners to country towns

- Provision of community law and safety measures, often as a result of public perceptions of increased crime and declining police numbers in country areas
- Library services
- Fire control services
- Noxious plant control enforcement and services

For Parry Council directly the following table provides examples of such imposts:

DESCRIPTION	EXPENDITURE 1995/1996	EXPENDITURE 2000/2001	INCREASE \$	INCREASE %	INFLATION <u>ADJ.@3%</u> P.A. 1995/1996	REAL INCREASE \$	REAL INCREASE %
NSW Rural Fire Service	\$4,662.00	\$7,404.00	\$2,742.00	58.82	\$5,404.54	\$1,999.46	37.00
Animal Control	\$9,992.00	\$16,031.00	\$6,039.00	60.44	\$11,583.47	\$4,447.53	38.40
Waste Management	\$174,097.00	\$544,378.00	\$370,281.00	212.69	\$201,826.14	\$342,551.86	169.73
Rural Fire Service	\$47,382.00	\$55,281.00	\$7,899.00	16.67	\$54,928.72	\$352.28	0.64
Environmental Services	\$5,160.00	\$85,430.00	\$80,270.00	1,555.62	\$5,981.85	\$79,448.15	1,328.15
Occupational & Health	\$6,540.00	\$54,380.00	\$47,840.00	731.50	\$7,581.65	\$46,798.35	617.26
Town Planning	\$98,500.00	\$195,500.00	\$97,000.00	98.48	\$114,188.50	\$81,311.50	71.21
	INCOME 1995/1996	INCOME 2000/2001	INCREASE \$	INCREASE %	INFLATION <u>ADJ.@3%</u> P.A. 1995/1996	REAL INCREASE \$	REAL INCREASE %
NSW Library Grant	\$31,125.00	\$27,079.00	-\$4,046.00	-13.00	\$36,082.41	-\$9,003.41	-24.95

Further examples of cost shifting are now identified.

Bridges

The State Government has abolished its Bridge Subsidy Scheme which involved a 50% subsidy towards the capital cost of new and replacement bridges on regional and local roads.

The withdrawal of this program has accomplished two things:

1. placed a massive financial burden on Council; and
2. basically stopped any major bridge works.

Parry like many Shire Councils simply cannot afford to undertake any major bridge works. If a bridge falls into disrepair, a restricted weight load limit is placed on the bridge in an attempt to extend its useful life. This causes significant disruption to the transporting of goods and produce by increasing travel distances.

Regional Roads

The State Government has again altered the rules governing funding. Local government must now meet 50% of the cost of all improvement works on regional roads. Consequently regional roads are falling into disrepair because of the inability of local government to source funding.

Water and Sewer Supply Schemes

The State government again has altered the rules regards subsidy arrangements for capital works. The subsidy used to be 50%, now it is a negotiated outcome with no certainty of the end result. Councils have negotiated outcomes ranging from 35% to 50%.

These essential infrastructure works can have a significant cost impost on communities.

Water Charges

The State government via the I.P.A.R.T. is recovering either partially or in total the costs pertaining to dams and pipeline maintenance.

This new impost is being transferred to local government by way of increased bulk water charges.

Companion Animal Act

The State government introduced this Act to replace the Dog Act. Registration fees are established by the State government and have no regard to the true costs of administration and enforcement.

Pensioner Rates and Charges Rebates

Stat government legislation provides rebates to pensioners for land rates, water charges and sewer charges. Local government must fund 45% of these rebates, and in 2001/2002 the cost to this Council was \$129,870.00.

These rebates are a welfare policy decision by the State government and local government should not be burdened with any partial recovery.

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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

Australia's government structures and their Parliaments cling to nineteenth-century arrangements and therefore continue down the slippery dip of irrelevancy in the eyes of many citizens.

The paramount target for any modernising agenda must be our absurd three-tier system of government. In Australia of 1900, with a tiny population scattered across far flung cities with little direct interaction with each other, it made a lot of sense. It is now a costly and obstructive anachronism which makes no sense at all.

The Business Council of Australia [9] has observed:

Australia's structure of Government is archaic and inefficient and in urgent need of reform. The key structural weaknesses of the current system are overlapping responsibilities for services, unco-ordinated approaches to regulation, and a mismatch between spending and revenue-raising responsibilities. There is a strong case for small, powerful co-ordinating and strategy-setting central Government, supported by a network of regional governments.

Even John Howard [10] once remarked that 'If you were starting Australia all over again you would have a national government and twenty regional governments'.

The abolition of State governments is unlikely to ever be achieved in our time, notwithstanding we must actively debate the issues and take an active interest in the change process, and intervene when necessary to shape it, remembering that Australia's regions are those of the nation not just the States. Any regionalism agenda must therefore be visioned by the States as principally a national issue requiring joint action.

In any considerations of determining the scope for achieving a rationalisation of responsibilities between tiers of government, comparisons with similar international systems of government can be useful.

International comparisons of democratic systems can be complicated by the variety of functions and responsibilities that are undertaken by the different levels of administration, and the challenges created by differing geography and population densities.

The table below provides a summary of Federal, State or Provincial and Local Government structures in Australia, Canada and the USA. All three nations have continental-scale geography, and are modern, advanced economies with relatively high levels of GDP per capita. All three also have three levels of administration – Federal, State or Provincial and Local and in each case, these levels of administration carry out broadly similar roles.

The USA has by far the most complex and multi-layered democratic system of the three nations, so much so that the US administration conducts a separate Census of Governments every five years just to keep track of its complexity.

A comparison of democratic systems in Australia, Canada and the USA

	Australia	USA	Canada
Federal Government	Bicameral Representatives 148 Senate 76 Total Federal 224	Bicameral Congress 435 Senate 100 Total Federal 535	Bicameral The Commons 301 Senate 105 Total Federal 406
State/Provincial Government	8 States/Territories Mixture of bicameral and unicameral parliaments. Total State= 598	50 States All bicameral except for one State. Parliaments range from 400 members (New Hampshire) to 20 (Alaska). Total State= 7,424	13 Provinces or Territories. All unicameral. Total Province= 742
Local Government	768 Local Government units 5,960 elected officials.	3,043 County governments, 19,372 Municipal Govt's and 16,629 township Govt's. Est. 312,352 elected officials.	907 Municipalities Est. 9,070 elected officials.
Population	18,967,000	281,400,000	31,081,900

Land area	7,692,000 sq.km	9,363,000 sq.km	9,976,140 sq.km
GDP (\$US)	\$463.7 bn	\$9,190 bn	\$792.4 bn
Total Politicians	6,782	320,311	10,218
Person per Federal politician	84,674	525,981	76,556
Person per State politician	31,717	37,904	41,889
Person per Local politician	3,182	901	3,427
Persons/Total politician	2,797	878	3,042
Sq km/Politician	1,134	29.23	976

Source: Australian Bureau of Statistics, US Bureau of Census and Statistics, Statistics Canada, OECD International Economic Statistics

REGIONAL POLICY All tiers of government in Australia are involved in local or regional development in some way. Policies and programs have evolved over time and continue to change in the face of new opportunities and constraints.

Regional policy is ad hoc and politically opportunist and unable to provide a holistic understanding of the rural-regional situation. This in part is due to the fact that each government agency addresses regional issues through its own narrow perspective and objectives.

Regions need to look at the relationships between individuals, organisations (here taken to include private sector firms and public sector and voluntary sector organisations) and communities. These are all inter-related, yet current policies are often directed at just one element with little understanding of how policy could be enhanced if it was delivered in a more holistic basis. An obvious example lies in the fact that State policies targeted at individual improvement largely emanate from the Department for Education and Training, community improvement typically tends to be the province of the Department of Land & Water Conservation and improvement in the competitiveness of firms and regions lies with the Department of State & Regional Development. A major task for regional development practitioners is to develop the holistic framework in which policies can be 'joined up' effectively to meet local needs. Key tasks here are improving capacity within individuals, improving quality and capacity within communities and securing better performance from organisations in all sectors. A better region needs all its parts to operate more effectively; you cannot just rely on one part to do all the work.

These two sets of relationships must lie at the heart of any regional economic strategy and must guide the ways in which programmes are delivered. However, successful programme delivery is not just about the region making the correct diagnosis and deciding what to do about it, it is also about Federal, State and Local Governments adjusting their own activities to complement these new regional agendas. So, radical thinking is not just confined to the regions, it must permeate Government as well. The implication of pursuing

the regional agenda is that successful modern states operate best through a process of decentralised decision-taking.

Systematic collaboration between government departments and tiers of government are non-existent.

Tiers of government in particular have an almost fanatical approach to competition and one upmanship.

We must begin to find common ground and build the long term foundations for economic development strategies and programs collaboration.

Trust seems the issue - for government departments and tiers of government will only collaborate if some basic level of trust exists.

The Government framework which is of relevance to the regions must undertake a substantial reappraisal of roles and responsibilities.

CITIZENSHIP

In Australia, the current model of community leadership, based on the principles of "representative democracy" is pretty simple. As a general rule we leave the decisions to a handful of elected representatives.

This model is not good enough and no longer works. Citizens now have access to far more information to form their opinions. Society today is more diverse and our problems more complicated. The idea of a small number of elected officials deciding for the community on all matters is both unworkable and unacceptable.

Conventional wisdom says Australia citizens are apathetic about politics. They are so busy with their individual concerns and problems that they simply do not care. Previous efforts to become involved in civic life have left them frustrated and feeling helpless.

Australians are not apathetic, they merely feel impotent when it comes to politics. They will participate, but only when they feel their efforts have a reasonable chance of making a difference. The problem to-date is simply that they do not have the capacity and skills to participate in an effective manner, and many times are either denied or not presented with the opportunity.

The challenge for all Governments is to reinvent the concept of citizenship and community empowerment to involve and engage citizens more successfully. Local government is the only tier of government that can adequately meet this challenge.

It is important to consider the rationale or justification for increasing the power base of the community; why can't citizens advance their own interests and aspirations through their elected representatives? Indirect self control is imperative in a democratic political system?

The importance of empowerment in creating a decision-making partnership is reflected by a set of beliefs that is fundamental to a western philosophy of politics and personal fulfilment, that reaches back at least to Aristotle. Chief among these beliefs is the idea that, in so far as practically possible, each person ought to have the opportunity to control the conditions of his/her life and that the exercise of reasonable self-control as individuals and as citizens is indispensable both to our development as moral and social beings, and to our sense of self-worth.

This is particularly relevant to contemporary communities, as it can be contended that citizens >live-out= their years alienated from institutional power settings dominated by decision-making elites, which reflect that elite=s values and performances.

Local Government in particular has the potential to be the ideal location to ensure citizen alienation remains no threat to democratic government.

Councils that adopt citizen participation and empowerment strategies can proceed with confidence in their decision-making role, with the knowledge that they are asserting community desires. Mill [11] highlights this importance of being an active participant, by pointing out that there is no difficulty in showing that the best form of government, is that in which the sovereignty is vested in the entire aggregate of the community. Every citizen not only having a voice in the exercise of that ultimate sovereignty, but being, at least occasionally, called on to take an actual part in the government by the personal discharge of some public function (local or general).

Community empowerment is an idea whose time has come, because citizens now and in the future will increasingly demand a more active role in public policy decision-making. Effective solutions to societies problems will demand it.

Urban sustainability for example presents society with many challenges. Decisions must be made over long time scales where risks are poorly understood or uncertain, and where there is typically a myriad of conflicting interests and values. Compounding the issue is a growing level of citizen scepticism and mistrust in the ability of government and elected representatives to manage these complex decisions.

The future is quite clear, that effective policy development not only needs to be developed in the context of these uncertainties, ambiguities and underlying values, but it must meaningfully engage all those who will be affected by any resulting decisions.

Governments must enlist, rather than resist, the forces of participatory democracy, and find ways to involve organisations and individuals in policy-making and policy execution. This means not merely mobilising individuals= ideas and energies, but empowering them.

In summary, local government is exceptionally positioned to act as the 'government of the locality', by acting as a conduit and facilitator for a wide range of government actions.

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The findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 of June 2001, taking into account the views of interested parties as sought by the Government

The purpose of the above report is to enable the Federal Government to monitor how grant funds are allocated by the State Grants Commissions as well as allowing the three (3) spheres of government to compare outcomes between similar local governing bodies in different states.

The findings of the review are fully described in Appendix C of such report.

Brief comments only are tendered on some relevant aspects of the return.

3. Evidence supports the view that local governments functions and responsibilities have increased without a corresponding increase in funding or in access to additional revenue.
4. Where financial pressures faced by local government are the result of changing policies or actions of another sphere of government, it would be appropriate for that sphere to acknowledge the effect of its actions and to provide extra financial assistance where it resulted in extra functions being imposed.
5. Local government's expanding role has created pressure to redefine and clarify the relationship between local government and other spheres of government.
6. Local government is a key barometer of social, economic, environmental and cultural issues of concern to communities.
7. Local government has a critical role in natural resource management, like managing the issues of landuse planning, biodiversity, water infrastructure and management and salinity.

8. Local government's role in regional development is likely to become increasingly important in the future.

3

Conclusion

This submission presents an array of key issues relevant to the terms of reference for the inquiry.

Local Government is responsible for the provision of a wide range of critical services and infrastructure essential to the welfare and economic, social and environmental advancement of Australia. If local government is to fulfill its true potential and meet the growing needs of communities, it is absolutely essential that it have access to the required resources.

Local governments current capacity to maintain existing services and infrastructure is clearly compromised. In many instances (in particular rural and regional) local authorities are being forced to cut services and defer critical infrastructure expenditure. This deficiency in investment infrastructure across Australia is well documented.

Without access to a broader financial base, in particular, access to a growth tax, local government and their respective communities will not be in a position to accomplish its current, let alone any new statutory responsibilities, deliver new services demanded by communities or to construct and maintain necessary infrastructure.

Stable revenue bases, exhibiting real levels of growth, are critical to the effective and efficient operation of any sphere of government.

4

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