
The Parliament of the Commonwealth of Australia

Rates and Taxes:

A Fair Share for Responsible Local Government

House of Representatives

Standing Committee on Economics, Finance and Public Administration

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Contents

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

REPORT

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

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

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

APPENDICES

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



Foreword

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr David Hawker MP
Chair



Membership of the Committee

Chair Mr David Hawker MP

Deputy Chair Ms Anna Burke MP

Members

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

Committee Secretariat

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



Terms of reference

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

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

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



Abbreviations

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

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



Glossary

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

Horizontal Fiscal Equalisation (HFE)	This is the distribution of general purpose grants to local government, with the objective of ensuring each council is able to function, by reasonable effort, at a standard not lower than the average standard in the State and takes account of differences in expenditure required in performing its functions and in the capacity to raise revenue.
Local Roads Grant	This is one of the two components (the other being the general purpose grant) of the financial assistance grant to local government. It was formerly provided as a tied grant and became 'untied' from 1 July 1991. It continues to be identified and distributed according to the former tied grant arrangements. It is distributed between States on the basis of historical shares and within States on the basis of road expenditure needs.
Vertical Fiscal Imbalance (VFI)	VFI is caused by the uneven distribution of taxing powers and expenditure functions.



List of recommendations

2 Roles and responsibilities

Recommendation 1

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

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

Recommendation 2

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

Recommendation 3

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

3 Cost shifting

Recommendation 4

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

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

Recommendation 5

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

Recommendation 6

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

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

Recommendation 7

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

Recommendation 8

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

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

4 Infrastructure**Recommendation 9**

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

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

Recommendation 10

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

5 Capacity building in our regions**Recommendation 11**

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

Recommendation 12

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

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

Recommendation 13

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

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

Recommendation 14

The Committee recommends that the Federal government:

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

6 Commonwealth funding of local government

Recommendation 15

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

Recommendation 16

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

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

7 The way forward

Recommendation 17

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

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

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

Recommendation 18

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

