



HOUSE ECONOMICS COMMITTEE

INQUIRY INTO COST SHIFTING ONTO LOCAL GOVERNMENT

MEDIA RELEASE

Issued: 24 November 2003

*Chair: Mr David Hawker, MP
Deputy: Ms Anna Burke, MP*

Revamp of Federal-State-local relations needed: report

A major shake-up of Federal-State-local government relations has been recommended by the House of Representatives Economics, Finance and Public Administration Committee, following an 18-month public inquiry.

The unanimous report of the inquiry into cost-shifting onto local government, released today, finds local government has been short-changed, particularly by the actions of state governments, with more functions expected of local government but no or insufficient funds provided to undertake them.

The report makes 18 recommendations for reform, including:

- An urgent meeting of the Prime Minister, federal Treasurer, State and Territory Premiers/Chief Ministers/Treasurers, and representatives of local government from each State, to develop a Federal-State intergovernmental agreement on the roles and responsibilities of local government, and determine funding sources to meet those responsibilities;
- A new national model, to be phased in over three years, be established for the distribution of Financial Assistance Grants to local government, based on equalisation principles (ie on the basis of need), with funds paid direct to local government;
- That the federal Treasurer assume responsibility for the Commonwealth's financial relationship with local government;
- All future Federal-State Specific Purpose Payment (SPP) agreements to require State governments to report on what responsibilities States intend to hand to local government, and the volume of funds to be distributed to local government to perform those functions. SPPs directed to local government (such as for roads) should be conditional on States not reducing their effort;
- The Federal government to establish a Local Government Liaison Unit to coordinate local-State-Federal relations and initiatives; and
- Local government bodies be required to audit the state of their infrastructure and provide status reports to the Commonwealth Grants Commission.

The report also calls for a **Summit on Intergovernmental Relations** to be held by COAG in 2005 to thoroughly review the roles and responsibilities of the three levels of government, and how they are funded. The summit would also review progress made on the more immediate recommendations made in the report.

House Economics Committee Chairman David Hawker said the inquiry had revealed some stark and disturbing realities.

"The most immediate and obvious being that cost shifting is largely a symptom of a growing crisis in Australian governance," Mr Hawker said.

"Our system of federalism is fracturing under the weight of duplication and coordination costs between three levels of government and it is costing the Australian community around \$20 billion a year. This cannot continue if we are to remain competitive internationally. I would hope that this report marks the beginning of reform of governance and consequently, financial arrangements, in Australia."

The Committee says all levels of government, but particularly the States, have engaged in cost-shifting in some form or another (including 'revenue denial', via rate caps) and have done so for many years. It appears to have become more frequent since the changes to Local Government Acts in various States.

The inquiry has heard that State governments are now responsible for cost shifts onto local government of between \$500 million and \$1 billion per year.

"Not only are State governments gaining through the GST, they also cost shift and then continue to call on the Federal government for more for service delivery arrangements," Mr Hawker said.



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The Committee recommends a new funding approach based on equalisation principles. This will result in a national model consistent across all Local Government Bodies, with funds distributed direct to local government from the federal government in an effort to increase transparency and cut duplication costs, as well as recognising the capacity of a community to pay, whether in rural or urban Australia.

“It is pleasing to note that both sides of the House supported the 1974 Local Government Grants Bill which set out to reduce equalities between local governments. Today’s unanimous report also supports its original intention through the proposed new funding arrangements.”

Mr Hawker said the identification of who does what and who can do it best is the matter for three levels of government to sort out.

“That is why the report recommends a Summit on Inter-governmental Relations to be hosted by COAG in 2005,” he said.

The Summit would review current financial arrangements, look at service provision, infrastructure needs and the processes needed to reduce cost shifting and unfunded mandates.

“A very important agenda item for the Summit is to work out how to make sure that Federal/State/Territory responsibilities administered by local government are adequately funded. The Summit would also report on the implementation of the recommendations of this Inquiry.

“The Summit is seen as the opportunity for all levels of government to work out the best possible administrative arrangements for the country; in short, a blueprint for the future.

“Adjustments on the part of all levels of government are needed and good will is essential if we are to reform the way we, as a nation, manage our business. Failure to move forward on this matter will mean more of the same; the waste of precious resources, frustration on the part of both the community and government and most importantly, the holding back of the nation.

“The Committee sincerely hopes that all governments will support the proposed changes as a genuine attempt to forge a new, fair funding partnership between the three spheres of government which will better serve all Australians wherever they happen to live.”

To arrange media comment: please contact the House Economics Committee Chair,
Mr David Hawker, via (02) 6277 4837

For other information, contact the committee secretariat via
(02) 6277 4587 or visit the inquiry website at www.aph.gov.au/house/committee/efpa/