

Mr David Hawker MP
Chair
Standing Committee on Economics, Finance and
Public Administration
House of Representatives
Parliament House
CANBERRA ACT 2601

Dear Sir/Madam

INQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING

I refer to the above inquiry which I was alerted to by a letter from the Hon Wilson Tuckey MP, Minister for Regional Services, Territories and Local Government. I am also writing on behalf of the Hon Steve Bracks MP, Premier of Victoria. In his letter Mr Tuckey indicated the Inquiry would focus on cost shifting onto Local Government by State Governments and the role responsibilities and financial position of Local Government. I note that the terms of reference indicate that the inquiry will be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

It is considered that the terms of reference are inadequate in a number of areas. The terms of reference do not address the issue of the 1991 Roads Agreement. The 1991 Agreement arose from a special Premiers conference that was specifically convened to try and clarify responsibilities for road funding between levels of government. I understand the renegotiation of the 1991 Roads Agreement is the subject of the Auslink proposal that the Federal Government has recently initiated through the Hon John Anderson MP, Minister for Transport and Regional Services. The existing agreement indicates that the Federal Government is primarily responsible for funding National Highways, State Governments are responsible for funding other Arterial Roads and local government is primarily responsible for local roads but with assistance funding provided by the Federal Government.

It is unclear whether the untied local roads funding that is currently allocated to Victorian councils is included within the scope of the AusLink proposal. While this is allocated by the Victoria Grants Commission according to each council's local roads needs, the funding is untied as to its application by councils. If the untied funding does fall within the scope of the AusLink proposal, it is likely that the issue of the interstate distribution of these funds will be raised. Victoria currently receives a fixed proportion of 20.6% of the total untied local roads grants funds allocated to local government by the Commonwealth Government. The interstate allocation of these funds is based on historical shares and, as noted by the Commonwealth Grants Commission in their review of the operation of the *Local Government (Financial Assistance) Act 1995*, which was published in June 2001, "the original basis for this distribution is now not known". A strong argument could be mounted, on the basis of

national share of population, fuel excise receipts or traffic volumes, that Victoria should receive a higher proportion of these funds than the current 20.6% share.

Even before the Minister announced this inquiry Victoria had undertaken some analysis of the funding arrangements between the different levels of government in Australia. This showed that any Australia-wide approach will have to tackle significant differences in roles and responsibilities of councils across the country. For examples:

- Victorian councils have major roles in delivery of Home and Community Care, which in other states is the responsibility of State Health or Community Services departments.
- Most Queensland councils run extensive water supply businesses – which from the 1980s in Victoria were divorced from councils into separate authorities.

The report containing this analysis is currently being updated and I will forward it to you by Friday 2 August 2002.

Not only are there such differences between the States now, but there have been major changes in the scope of local government activities over the past quarter century. Even in the past five years in Victoria, as is documented below:

- Thirteen councils have decided to cease carrying out maintenance of main roads on behalf of (and reimbursed by) the State Government;
- More than half of the funding for public libraries now goes directly to regional library corporations rather than via the member councils;
- Eight councils reduced their direct involvement in Aged Care programs, auspicing these tasks to other bodies such as regional health groups. At the same time, ten other councils considerably expanded such programs – and State grants doubled or more for those councils in consequence;
- Eleven councils no longer provide direct child care operations, and some others have scaled theirs back significantly. In contrast, seven councils have more than doubled spending on child care operations in the last five years.

Such trends reflect decisions by local councils on the services and service delivery patterns that are most appropriate for their communities. In doing so, councils are trying new approaches, and there is considerable learning from each other in what works and what doesn't work.

At the same time, such trends complicate considerably efforts to assess any overall patterns of "cost shifting" between State and local government.

The Federal Minister's media release refers to major changes in State grants funding to local government since the 1970s. However, a lot of things have changed since the 1970s – and there seems little rationale in arguing for a piecemeal return to aspects of funding then. Indeed, many local government services have changed significantly in the last five years, making comparisons over even this time frame complicated, let alone making comparisons back to the 1970s.

Minister Tuckey's letter argues that the Commonwealth Government cannot sensibly address the findings of the review into the operation of the *Local Government*

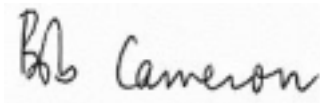
(Financial Assistance) Act 1995 until the inquiry into cost shifting is conducted. The new inquiry should not delay implementation of the 2001 review findings for the following reasons. The two matters are quite separate. The review into the operation of the *Local Government (Financial Assistance) Act 1995* dealt with the principles for allocating Commonwealth Government untied financial assistance to local government and associated administrative matters. Completion of the new inquiry is not required to implement changes to the operation of the Act and the national distribution principles.

Adequate opportunities were provided by the Commonwealth Grants Commission for councils and other stakeholders (such as State Grants Commissions) to make written and oral submissions both before and after the release of a draft report in January 2001. There was broad agreement with the preliminary findings of the Commonwealth Grants Commission as published in the draft report in January 2001. Only four Victorian council submissions were made on the basis of the draft report, suggesting that the preliminary findings were not contentious. Only minor changes were made to the findings between the draft and final reports.

In summary, it is considered that there was adequate consultation as part of the 2001 review and that the findings are not contentious. No additional consultation is required and the Commonwealth Government should move to implement the findings and improve the operation of the *Local Government (Financial Assistance) Act 1995*.

Thank you for the opportunity of placing these issues before your Inquiry.

Yours sincerely

A handwritten signature in black ink that reads "Bob Cameron". The signature is written in a cursive style with a large initial "B".

Bob Cameron MP
Minister for Local Government