

QUEENSLAND GOVERNMENT RESPONSE TO INQUIRY

This submission is Queensland's response to the Inquiry being conducted by the House of Representatives Standing Committee on Economics, Finance and Public Administration, into cost shifting from States to local government.

The financial position of local government in Australia is an important topic. The Queensland Government is concerned the current Inquiry will not do justice to the issue, and is greatly concerned it was not consulted about the appropriate process for a meaningful Inquiry into the financial position of local government. It is doubtful a House of Representatives Standing Committee Inquiry is the most appropriate and independent process for consideration of the issues involved. In 1991, the Commonwealth Government commissioned the Commonwealth Grants Commission (CGC) to inquire into local government funding. If the Commonwealth is genuinely interested in an unbiased examination of local government funding, it would be more appropriate to commission the CGC to update its review.

It is not possible to examine levels of State funding for local government in isolation from consideration of levels of Commonwealth funding to the States. Vertical fiscal imbalance occurs in all federations. 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. The Queensland Government strongly urges that the terms of reference be widened to include Commonwealth cost shifting onto States, and that a broader inquiry be undertaken by an independent body.

The Commonwealth Government is responsible for the provision of general financial assistance grants to local government. Yet the terms of reference require the Inquiry to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth. This is unacceptable. The Commonwealth Government similarly protected itself when it drafted the terms of reference for the Commonwealth Grants Commission (CGC) Review of the *Local Government (Financial Assistance) Act 1995*. The quantum of Commonwealth Government financial assistance grants for local government was expressly excluded from the terms of reference. In its report, the CGC noted that many participants said the financial assistance grants were the most important aspects of local government funding.

The Commonwealth Government, being responsible for financial assistance grants to local government also has a capacity to cost shift to local government. In 1996, the Commonwealth unilaterally withheld indexation of local government financial assistance grants as a 'contribution' to the Commonwealth's deficit reduction initiative. When indexation resumed, the base level of grants was not adjusted for the lost indexation, and, as a consequence, this cost shifting has an on-going impact on the

financial position of local government. More generally, the failure of the Commonwealth to increase the quantum of financial assistance grants to local government in line with growth in Commonwealth taxation revenue represents a systematic cost shifting by the Commonwealth onto local government. The Queensland Government trusts the Inquiry will fully examine this issue of fundamental importance to the financial position of local government.

The legislation underpinning the system of local government in Queensland is the *Local Government Act 1993*. The *City of Brisbane Act 1924* also includes additional powers and responsibilities for Brisbane City Council.

The legislation provides a jurisdiction for local government sufficient to allow each council to take autonomous responsibility for the good governance of its area with a minimum of intervention by the State. Local governments have executive and law making powers and in respect of the latter, can make a local law on any matter that the State Parliament can legislate on.

If a State law and local law are inconsistent, the State law prevails to the extent of the inconsistency. This is akin to the relationship between the Commonwealth and the States arising from the Australian Constitution.

The wide autonomy and flexibility granted to local governments is balanced by a range of accountability measures, mostly to the local community.

While the State is responsible for creating and maintaining the local government framework, there exists a partnership relationship between the State and local government arising from the autonomy enjoyed by local governments in Queensland.

Because of the broad charter granted by the *Local Government Act 1993* for councils to govern for the good of their communities, they can take on new roles and responsibilities to meet emerging local needs. Where those needs intersect with State priorities, collaboration can lead to partnership arrangements eg the Security Improvement Program administered by the Department of Local Government and Planning provides a 50% subsidy for councils to fund security infrastructure to address community concerns over anti-social activities in public places.

The State can also initiate a change in roles and responsibilities to address broad new community concerns (eg the legislative amendment last year providing State wide minimum standards for keeping restricted dogs such as pit bull terriers), but changes are based on consultation and negotiation between the State and local governments.

Queensland local governments have the widest jurisdiction of any local governments within Australia to respond to community needs and are equipped with the most flexible powers of any jurisdiction. For example, the revenue raising powers of Queensland councils are far wider than those in other States and consideration is being given to increasing their flexibility.

Factors influencing the Queensland local government system include the vast geographic spread of Queensland's 125 councils. Additionally, Queensland has the largest urban council in Australia (Brisbane City Council) and well developed regional organisations of councils.

For example the South East Queensland Regional Organisation of Councils is recognised as a model upon which other States are devising regional structures.

Given the design of the local government system and the decision to treat each council as more a government in its own right, the relationship with the State Government is based on partnership.

The partnership arrangement between local government and the State is formalised through a Whole of Government Protocol, which outlines processes for consultation and collaboration and the responsibilities of each tier of Government. The Protocol requires the State to consult with local government on legislative and policy issues impacting on local government.

The Protocol represents a commitment by the State and local governments to work together on a partnership basis to achieve better outcomes for local communities and the State as a whole.

Following the initial signing of the Protocol, the Local Government Reform Committee (LGRC) was established as a high level consultative forum between the State and local government. The LGRC is chaired by the Director-General of the Department of Local Government and Planning and includes the General Manager, Local Government Services, Department of Local Government and Planning, the Executive Director of the Local Government Association of Queensland and the President of Local Government Managers Australia (Queensland).

The primary functions of the LGRC are to facilitate a partnership and consultative link between the State and local government representatives to address the practical implementation of local government reforms and issues impacting on the local government system.

The LGRC meets every three or four months and it is considered an important mechanism in maintaining a State/local government relationship based upon partnership and collaboration.

Queensland has developed a strong and effective partnership relation with local government, providing local governments with autonomy and flexibility to govern for the good of their local communities. The State Government has also recognised the contribution of local government to the governance of the State and improved economic, social and environmental outcomes for Queenslanders.

For example, the State Government is providing local government with \$150 million in National Competition Policy (NCP) dividends it expects to receive from the Commonwealth Government to assist them implement NCP reforms that will improve their operations and benefit the community. In addition, the Department of Local Government and Planning alone made payments of more than \$185 million to local governments in 2001-2002 to help them provide for a range of community infrastructure (including water and sewerage treatment plants, road and drainage works, cultural centres, toilet blocks, showground facilities, redevelopment of regional centres etc) and to restore public assets damaged through natural disasters.

The Queensland Government is confident Queensland has in recent decades provided substantial financial support for local government activities which may not be immediately apparent from an examination of unadjusted Government Finance Statistics data. In Queensland the partnership between the State and local government is strong and effective. Queensland will monitor closely and with interest how this Inquiry proceeds.