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11 March 2003

Mr David Hawker MP
 Chairman
 House of Representative Standing Committee on Economics
 Parliament House
 CANBERRA ACT 2600

House of Representatives Standing Committee on Economics, Finance and Public Administration	
Submission No:.....	352.....
Date Received:.....	14/3/03.....
Secretary

Dear Mr Hawker

Congratulations on the progress of the Inquiry on Cost Shifting to Local Government to date. This is an important inquiry and it is our hope that the committee will be able to rapidly conclude its work by making substantive recommendations dealing with the persistent practice of cost-shifting to local government.

I have read the Committee's latest discussion paper with interest. That said, I was surprised at the scope of the discussion paper and disappointed that it sought to broaden the work of the inquiry at this stage of your deliberations.

ALGA is particularly concerned that raising such a broad sweep of issues at this point will add to the complexity of the inquiry, and distract attention from the core issue at stake – namely, addressing the serious and sustained practice of cost-shifting to local government.

In my view, ALGA's supplementary submission provides the committee with a useful and realistic way forward. I urge your careful consideration of ALGA's proposals. In summary, the ALGA supplementary submission calls for a five-point plan to address cost-shifting. These five points are that the Commonwealth should:

- acknowledge cost shifting occurs and is a substantial problem;
- identify and quantify the extent of cost shifting through a Productivity Commission inquiry, conducted in collaboration with the State Local Government Grants Commissions;
- initiate measures to ensure public sector revenue is fairly shared across all three spheres of government;
- develop an inter-government agreement (IGA) on local service provision; and
- enforce the terms of the IGA through appropriate compliance provisions.

Noting ALGA's recommendations, I would like to offer some broad observations on certain aspects of the discussion paper. On a positive note, the paper quite correctly acknowledges that cost shifting does occur and is a serious problem. It acknowledges a number of issues around the inadequacy of the general financing of local

government, and identifies options that directly address the issue of cost-shifting, such as the development of inter-governmental agreements around specific services. This reflects one of the themes advocated by ALGA in our supplementary submission.

On a less positive note however, options in the paper (and the supporting questionnaire) seek to open an entirely new debate on complex financing issues. These options are apparently presented as a smorgasbord, inviting individual selections, and/or rejections, in isolation. However, in reality this cannot be the case. Individual options and combinations of options on the breath of issues raised in the inquiry require detailed and complex modelling. This should be done in conjunction with local government and appropriate Commonwealth agencies. The outcome of which must be fully assessed against desired Commonwealth and local government outcomes.

To this end, ALGA supports the proposition in the discussion paper that the Commonwealth should make a clear statement about its intentions for local government, taking into account local government's own expectations. In my view, this would best be achieved by enhancing the general principles relating to the financial capacity of local government, contained in section 3 of the *Local Government (Financial Assistance) Act 1995*.

More specifically, in relation to this Act, the key issue is that the committee must make recommendations to address the currently inadequate quantum of FAGs. This includes the need for a more appropriate mechanism to determine annually increases to FAGs. This would be best achieved by amending section 8 of the *Local Government (Financial Assistance) Act 1995* so as to amend the basis of the escalation factor to link FAGs to growth taxes such as GST revenues. ALGA will be further developing this proposition through the current Senate Inquiry into Taxation.

A number of the options contained in the discussion paper suggest the application of conditions on the allocation and deployment of the General Purpose component of FAGs to local government. This is totally unacceptable to local government and is in breach of the spirit of partnership that exists our two spheres of government. ALGA's supplementary submission makes the strong point that untied FAGs and own-source revenue should be devoted to 'general local government competency' purposes, while IGA arrangements should be established to define the delivery and SPP funding of devolved services.

Following this logic, ALGA does not encourage the committee to pursue an incredibly resource intensive broad scale 'roles and responsibilities' exercise. ALGA recommends a targeted approach to services provided under SPPs. We believe that the Productivity Commission in collaboration with State Local Government Grants Commissions should progress this work.

Some options make references to the Local Government and Planning Minister's Council. Whilst ALGA strongly supports the work of this ministerial council, we do not believe that the council is adequately resourced to conduct such work. Indeed, some of the proposals seem to duplicate the work of ALGA, the state/territory associations and the proposed for the Productivity Commission study.

The option referring to a national infrastructure study may be useful. However the objectives and desired outcomes of such study are unclear. Rather than another study, a more productive way forward might be to make effective linkages between local government and other specific infrastructure work for example through AusLink.

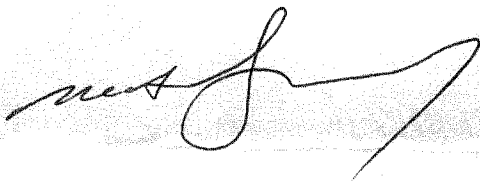
Reference to regional cooperation is noted. ALGA strongly supports voluntary regional cooperation. It is also imperative that local government be the foundation of regional arrangements, and that Commonwealth/State/Territory arrangements do not over-ride compromise local government's roles and responsibilities in local regions.

My final comments relate to option 9 - 'top cut' to FAGs. This proposal recognises the need for capacity building and potentially a range of other nationally relevant activities. This function was previously provided by on-budget program funds such as the Local Government Incentive Program (LGIP). ALGA recognises the need for national activity, and fully supports strengthening of the partnership between ALGA and the Commonwealth. This partnership has been very effective at introducing a range of value adding initiatives over many years and it is hoped that this approach could be continued, albeit better resourced. New funds must be found to support this function but not through any reduction in FAGs. ALGA would not support diversion of FAGs funding from councils for centralised purposes.

In conclusion, ALGA recommends a quick finalization of the inquiry and commends the five point plan, as outlined in our supplementary submission, as the core framework of the Committee's recommendations on this important inquiry.

I wish you well with your deliberations. Your work is of immense importance to local government and we appreciate the time and effort the committee is devoting to this task. I would be more than happy to discuss these issues with you in more detail.

Yours sincerely



Cr Mike Montgomery
President