

# Penrith City Council

Our Ref: HL 750/9  
Contact: Ms Helen Lowndes  
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26 July 2002

Trevor Rowe  
Secretary  
House Economics Committee  
Parliament House  
CANBERRA ACT 2601

House of representatives Standing Committee on  
Economics, Finance and Public Administration

Submission No: 79

Date Received: 27/7/02

Secretary: Bardell

Dear Mr Rowe,

## Submission to the Inquiry into Local Government and Cost Shifting

Thank you for the opportunity provided to Penrith City Council to make a submission to the Commonwealth Inquiry into Local Government and Cost Shifting. As advised by telephone last week this is an initial submission from Council foreshadowing the issues that it wishes to raise regarding the Inquiry and its Terms of Reference.

Following Council's consideration of a detailed report on the matter on 5 August 2002 a supplementary submission will be forwarded to the Committee with any additional comments or changes that Council may wish to make.

### General Comments

Penrith City Council wishes to raise three key issues regarding the overall Inquiry and its terms of reference.

Firstly it is noted that the Inquiry is focussed on cost shifting onto local government by state governments and does not include an assessment of cost shifting by the Commonwealth Government. While the majority of local government responsibilities are determined by the states the Commonwealth has also devolved responsibilities to local government over past years either directly or indirectly through the states and unmet community needs.

Council considers that to allow a fuller inquiry the terms of reference need to be broadened to include an examination of cost shifting by the Commonwealth Government to local government. Similarly, the requirement for cost neutrality for the Commonwealth from the Inquiry outcomes should be removed.

Secondly, in Council's view local government functions remain relevant and there is no justification for a major overhaul of those functions. While accepting that, from time to time, local changes will occur to those functions there needs to be proper protocols in place to determine the appropriate level of funding required and measures put in place for the long term continuity of that funding.

Thirdly, Council wishes to highlight that Australia's population growth is occurring largely on the edges of our cities. There is an urgent need for investment by both Commonwealth and State Governments into social and service infrastructure to support sustainable urbanisation in these areas. That investment should take place at the regional level to overcome past problems of infrastructure and services arriving too late.

The importance of this issue places it on a national level. Local government Mayors representing Councils in the Western Sydney Regional Organisation of Councils (WSROC) have previously recognised this and called for the Commonwealth to reinvest in Western Sydney.

## **Response to Inquiry's Terms of Reference**

Council's responses to the Inquiry's specific Terms of Reference are as follows:

### **1. Local government's current roles and responsibilities**

There are increasing demands being placed on local government with associated impacts on financial capacity. These relate to:

- Devolved functions from government either as a direct shift of functions and costs from state government or indirectly from the Commonwealth to states or the community.
- Flow-on effect or unplanned creep of functions and costs.
- Changing expectations of the community leading to a broadening of local government functions and services.
- The fact that perception of 'community need' results in there being minimal reduction or attrition of local government's functions and services over time.

Due to the large and varied number of changes that have occurred to local government's functions and responsibilities over the last 10 to 15 years Council considers there is a need for a comprehensive review of those changes and associated costs. In addition there needs to be a clarification of local government's functional responsibilities in relation to the State and Commonwealth Government.

Council therefore recommends that the Inquiry:

- Seek a review of changes to local government's functions and responsibilities and associated costs over the last 10 to 15 years. In the case of functions devolved from the Commonwealth the Inquiry request that this be undertaken by the Commonwealth Auditor General. Secondly that the Inquiry formulate a request to the states for a similar audit to be undertaken by respective state Auditor Generals. The review should include both direct and indirect functional and cost shifts from State or Commonwealth governments.
- Seek clarification of functional responsibilities between all three levels of government in Australia and joint recognition and agreement for these functions.
- Seek improvement in the status of local government in 'local to State' and 'local to Federal' relationships. This would include greater awareness of the primary role of local government in local service provision and urban management and less ad hoc intervention from other levels of government especially where there is a clear accountability to local constituents.

### **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.**

Council has identified a number of issues which need to be taken account of or impact upon the level of funding currently allocated to local government to carry out its functional responsibilities. They include:

- The extent of cost shifting that has occurred to local government over the last 10 to 15 years by state and commonwealth governments and adequacy of funding arrangements made with local government. For example cost shifting from Federal to State Governments and reductions in grants from Federal to State Government produce flow-on effects to local government.
- The availability of alternative sources of income at either the local or regional level.
- The extent of limitations presently placed on councils to recover costs from services devolved by State and Federal Governments.
- Difficulties in addressing long-term ageing infrastructure given the current financial framework.
- Seek a review of alternative options for funding local infrastructure.

- The effect of reductions in roads funding and proposed changes to roads funding arrangements by the Federal Government.
- The link between this Inquiry and the one conducted into the operation of the Grants Commission Act.

Council therefore recommends that the Inquiry:

- As referred to in Council's response to the 1<sup>st</sup> Term of Reference request a detailed audit of functions devolved from the Commonwealth to local government from the Commonwealth Auditor General. And that a similar audit be requested from the states for functions devolved to local government by respective state Auditor Generals. And that a comprehensive examination be undertaken of the adequacy of funding arrangements to local government.
  - Seek a review of alternative sources of income at either the local or regional level. This should include new revenue source opportunities provided by the GST and National Competition Policy (NCP), the different treatment of these funding sources between states, the appropriateness of rate-pegging and inclusion of State levies within the rate-pegging limit.
  - The availability of alternative options for funding local infrastructure to development contributions. For example betterment taxes which tax private gains from public investment in infrastructure, with the proceeds going to 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.**

Earlier commentary in this submission referred to the importance of investment at the regional level into urbanisation on the edges of the nation's cities.

On this basis Council recommends that the Inquiry seek :

- Both Commonwealth and State Governments to urgently address the need for investment into social and service infrastructure to support sustainable urbanisation on the edges of our cities. And that this investment should take place at the regional level.
  - Recognition that there are distinct regions in urban areas and that these may be the best levels for the provision of some services.
  - A consistent basis between local, State and Federal Governments in defining regions.
  - Consideration of the potential for funding to regional groupings of councils from Federal and State governments and councils themselves. For example, Regional Development Funds.
  - A broadening of the Inquiry's Terms of Reference regarding cost neutrality for the Commonwealth Government to take account of the much greater Commonwealth Government engagement needed in metropolitan regions and the provision of urban infrastructure.
- 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.**

As previously stated in this submission there are increasing demands being placed on local government with associated impacts on financial capacity.

Responsibilities between metropolitan and rural local government also differ with metropolitan councils required to provide additional services and functions above the core functions of local government. For example, expanded service delivery associated with state government urban consolidation and new release area development policies.

There is a need for a review of sources of income at both the local or regional level. This should include revenue source opportunities provided by the GST and National Competition Policy (NCP) benefits, the appropriateness of rate-pegging and statutory limitations on fees and charges, application of State levies within the rate-pegging limit.

It is recommended that the Inquiry seek :

- Differentiation of the functions and responsibilities between metropolitan and rural local government that takes account of the additional services and functions that metropolitan councils need to provide above the core functions of local government. For example, increasing pressures on service delivery in urban councils associated with state government policies for urban consolidation and new release area development.
- Conversely, consideration to be given to capacity considerations in the determination of functions, their implementation and appropriate resourcing needs at the local government level. For example a large metropolitan council will have different capacity to implement functional change to a small rural shire.
- A review of sources of income at both the local or regional level. This should include revenue source opportunities provided by the GST and NCP benefits, the appropriateness of rate-pegging and statutory limitations on fees and charges, application of state levies within the rate-pegging limit.

**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.**

As discussed elsewhere in this submission there is an urgent need for investment to take place at the regional level to support sustainable urbanisation on the edges of our cities. Opportunities need to be explored as to how that can effectively occur. This could include consideration of funding for some services to regional groupings of councils from Federal and state governments and councils themselves. Other opportunities also need to be examined to improve funding for services and service delivery.

It is recommended that the Inquiry seek :

- A review of public revenue allocations to assist in a clearer definitional framework for Commonwealth, State and local responsibilities.
- Greater cooperation between Councils, particularly small councils, for the provision of urban services and management.
- A review of services delivered by government agencies to reduce duplication. Recognition that there are distinct regions in urban areas and that these may be the best levels for the provision of some services.
- Consideration of the potential for funding to regional groupings of councils from Federal and state governments – and councils themselves. For example, Regional Development Funds.
- A broadening of the Inquiry's Terms of Reference regarding cost neutrality for the Commonwealth Government to take account of the much greater Commonwealth Government engagement needed in metropolitan regions and the provision of urban infrastructure.

**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.**

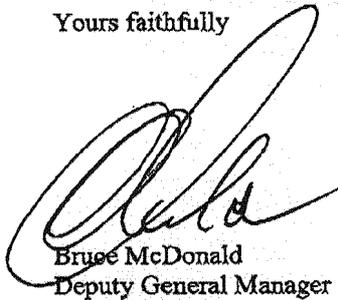
The principal purpose of this review was to examine the effectiveness and appropriateness of the operation of the Local Government (Financial Assistance) Act 1995.

Council recommends that the Inquiry give consideration to the matters raised in this initial submission when considering the findings of that review.

A further supplementary submission will be forwarded to the Inquiry following Council's consideration of a detailed report on the matter on 5 August 2002.

Thank you again for the opportunity to make a submission to the Inquiry.

Yours faithfully



Bruce McDonald  
Deputy General Manager