

**WIDE BAY BURNETT REGIONAL
ORGANISATION OF COUNCILS**

**Submission
for
Commonwealth Review
into Cost Shifting
by State Government
to Local Government**

25 July 2002

R A Chambers
Chief Executive Officer
Hervey Bay City Council
Telephone: 07 4197 4355

Introduction

This submission has been prepared on behalf of the Wide Bay Burnett Regional Organisation of Councils in response to the Terms of Reference of the House of Representative, Economics, Finance and Public Administration Committee Inquiry into Cost Shifting onto Local Government by State Governments, (refer **Attachment 1**). The Wide Bay Burnett Regional Organisation of Councils comprises the following Council membership:

North Burnett Coastal	North Burnett Inland
Miriam Vale	Monto
Burnett	Eidsvold
Bundaberg	Mundubbera
Kolan	Gayndah
Isis	Biggenden
Perry	
South Burnett	Wide Bay
Nanango	Hervey Bay
Kingaroy	Maryborough
Wondai	Tiaro
Murgon	Woocoo
Kilkivan	Cooloola
Cherbourg	

The association was established with the following objectives:

- a) To promote the economic and social well-being of people in the Wide Bay Burnett Region
- b) To identify the economic and social needs of the people of the Wide Bay Burnett Region and to make these needs known to the Commonwealth and State Governments.
- c) To co-operate in the preparation and submission of requests for assistance for member Councils from Commonwealth and State Governments
- d) To foster co-operation between Councils on projects of individual or mutual benefit or to further joint interests
- e) To concentrate available resources on seeking solutions to identified mutual problems and ascertain where savings in resources can be gained through co-operative effort.

The following staff from member Councils provided input and comment on this submission:

Cooloola Shire	
Russell Faulkner	Chief Executive Officer
Ken Mason	Finance Manager
Maryborough City	
Noel Gorrie	Chief Executive Officer
Bundaberg City	
Peter Byrne	Chief Executive Officer
Hervey Bay City	
Robert Chambers	Chief Executive Officer

1. Local Government Current Roles and Responsibilities

Response:

Councils within the Wide Bay Burnett Region provide a diverse range of functions and services under the Queensland Local Government Act as detailed below:

General Function	Range of Services which may be performed
General Public Services	Council office, Council transactions, governance, information, pensioner rebate scheme, meeting rooms, public halls, showgrounds, community consultation, agency arrangements, collection of Fire Service Levy
Public Order & Safety	Animal control, night patrols, public nuisances, street lighting, public space control, litter control, life guards, control of declared pests/plants, fire services, natural disaster relief
Education	Public awareness campaigns, community education
Health	Inspection/licensing of food and other premises, control of vermin, vector control, refuse services, community health, hospitals
Social Security and Welfare	Child care, aged care, meals-on-wheels, home care, respite care, youth services, disability access, counselling, community development, support of community organisations
Housing and Community Amenities	Public housing (eg aged), hostels, land development, town planning, building and plumbing certification, public conveniences, picnic areas, barbeques, environment protection, coastal management, natural resource management, acquisition/management of areas of environmental importance, beach control, licensing environmentally relevant activities, recycling, erosion control, cemeteries.
Recreation & Culture	Parks, playgrounds, sporting fields and venues, swimming pools, libraries, galleries, museums, heritage, festivals
Transport and Communications	Roads, traffic control, ferries, barge landings, jetties, boat ramps, airports, television services, internet services
Other Economic Affairs	Economic development, tourism promotion, industrial estates, residential land, tourist facilities/venues, hotels, caravan parks, camping areas, other business activities, saleyards, quarries
Essential Services	Water supplies, waste water systems, gas, drainage, flood mitigation

It should be noted that unlike other States urban water and waste water are undertaken and funded by Local Government providing considerable financial savings to the Queensland State Government in financing capital infrastructure and maintenance costs.

2. Current funding arrangements from local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.

Response:

Key Revenue Sources

Council Rates

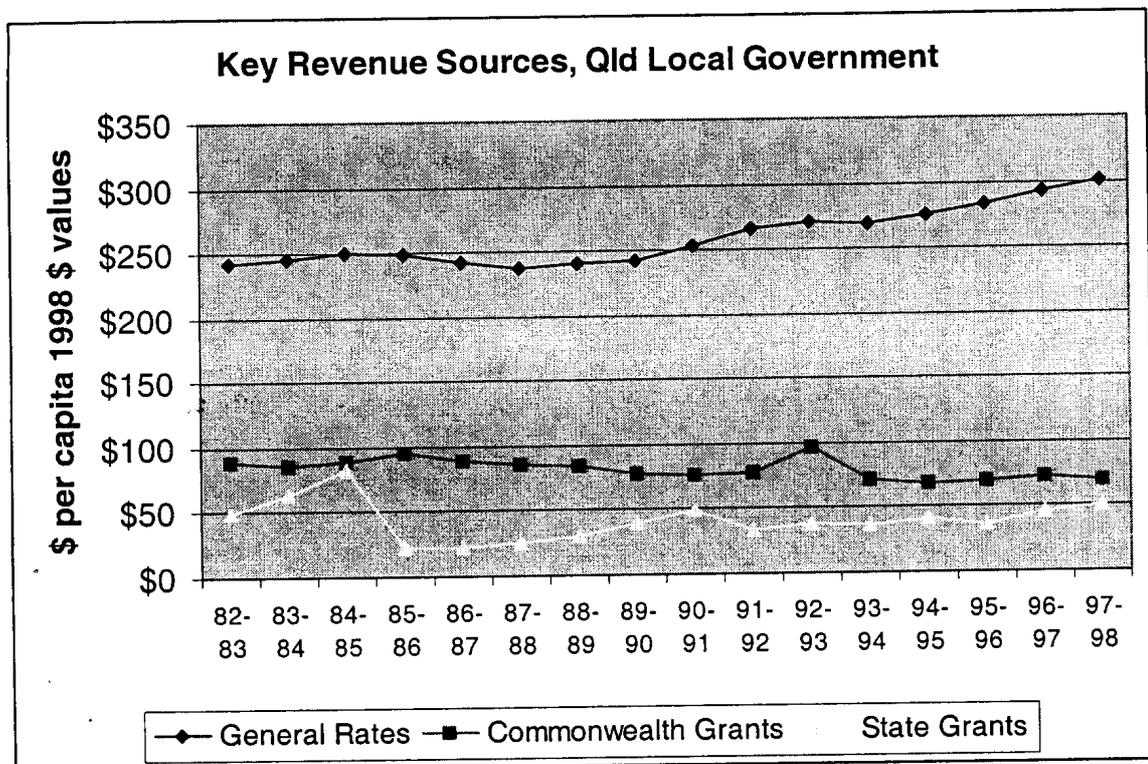
Local Government has been under pressure to expand the range and standard of services provided. This is as a result of:

- Introduction of new State and Federal Legislation
- An increase in standards required by existing legislation
- In some instances an increase in community expectations

As most rural and regional Councils have access to a limited range of funding sources the proportion of services funded from rates has increased significantly over the last fifteen years. General rates increased from \$243.00 per capita in 1982/83 (in 1998 dollar values) to \$301.00 per capita in 1997/98, an increase of 24%. It is estimated that general rates are now approximately \$310.00 per capita.

Government Grants

One of the key factors driving the increase in rates levied by Local Government has been the real per capita decline in grants provided by other Government sources and the devolution of responsibilities to Local Government without sufficient funding.



Source: Commonwealth Grants Commission Working Papers, June 2001

From 1982/83 to 1997/98 Commonwealth grants declined in real terms per capita from \$88.00 to \$69.00, a 22% decline while State Grants declined by around 40 million between 1984/85 and 1985/86 and remained relatively constant until 1996 where State grants increased through increased capital works subsidies.

Government grant funding has not kept pace with a static Local Government services scenario for the 1980's and 1990's let alone the large increase of additional responsibilities devolved to Local Government over the last two decades.

User Charges

Paragraph 38, page 42 of the Commonwealth Grants Commission Review, which states:

"LGBs in different circumstances will be subject to different financial pressures. For example, not every LGB has the same capacity to raise user charges. Giving LGBs an increased power to levy user charges does not mean they all have the same increase in capacity to provide additional services. Devolving functions to LGBs that are already highly dependent on grants risks their financial viability and there may be an argument for providing additional grants if they have low revenue capacities."

is particularly relevant to Councils in the Wide Bay Burnett Region where their capacity to raise additional revenue through user charges is severely constrained when compared with the opportunities available to the larger urban Councils such as the Gold Coast, Cairns, Townsville, Toowoomba etc.

Debt Levels

Local Government in Queensland has significantly higher levels of debt than is typical for Local Government elsewhere in Australia due to additional water and sewer capital infrastructure responsibilities.

Net Debt Comparisons, Australian Local Government

	NSW	VIC	QLD	SA	WA	TAS	NT	Total
Net Debt (June 2000)	(\$1,773)	(\$326)	\$1,652	\$213	(\$416)	\$83	(\$39)	(\$607)
Population 1999 (millions)	6.41	4.72	3.51	1.86	1.49	0.47	0.19	18.65
Net debt/capita	(\$277)	(\$69)	\$471	\$115	(\$279)	\$177	(\$205)	(\$33)

Source: ABS Cat. 5512.0, 99/00

These higher debt levels due to water and sewer infrastructure borrowings reduce Queensland Local Governments capacity to raise loans to fund other general capital works.

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.

Response:

At current State/Federal funding levels the Local Government rate base is being pushed beyond its sustainable capacity with ratepayers facing a continuum of real increases above CPI to meet State/Federal Legislative requirements and increased community expectations. While Local Government has managed to augment rate increases with improvements in productivity and efficiencies in service delivery, in the past it is acknowledged that many of the opportunities for productivity improvements have already been exploited and that if the range and standard of service required by State and Federal Legislation and community demands are to be met State and Federal funding will need to be increased.

As part of Local Governments strategies for improving productivity, Council's across the State are seeking opportunities to enhance service provision through regional arrangements. The Wide Bay Burnett Regional Organisation of Councils is a good example of Councils seeking efficiencies through a cooperative regional approach. (Refer to Association Objectives, Page 2).

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.

Response:

In the last two decades Local Government outlays have been increasing in real terms per capita in response to new State and Federal Government legislative requirements, and community expectations for an increasingly diverse range of services coupled with higher service standards. The following are examples of the demands being placed on Local Government by State and Federal Government and heightened community expectations.

Community Services

Local Governments social services have been expanded to include:

- Youth Support Programs
- Aged Care Programs
- Disability Support Programs
- Multi Cultural Programs
- Recreation Programs
- Crime Protection Programs

While the programs are primarily funded by State Government, Councils incur costs in the supervision, co-ordination, financial management and auditing and reporting procedures required by the programs. Councils are also at risk where the State Government decides to reduce or even cancel funding arrangements as quite often community expectations may force Council to continue to fund the program itself.

The State Government also provides capital funding for 'Community Centre' buildings which while of assistance in providing much needed facilities can leave Local Government with the long term costs of managing and operating the centre.

Environmental Protection Legislation

Implementation of the Environmental Protection Act has incurred significant additional costs to Local Government in the following areas:

- Implementation of new standards requiring upgrading of Waste and Water Treatment Infrastructure
- Treatment of Stormwater
- Refuse Disposal Activities

While Local Government supports the need for improved environmental standards, the costs of their implementation should be borne equitably across the three tiers of government.

Local Government Reporting Standards

The Queensland State Government have introduced more stringent, comprehensive and complex reporting requirement in the following areas:

- Financial Reporting
- Asset Management
- Depreciation of Assets
- EPA Monitoring and reporting requirements

Water Act 2000 reporting requirements
Again, while nobody can dispute that these requirements make Local Governments more open and accountable, there is an increased administration cost that is currently being solely borne by Local Government.

Local Law Review

In 1999 the Queensland State Government required Local Government to undertake a comprehensive review of their Local Laws and incorporate a public interest test in the local law making process. This review was a complex and onerous exercise that placed a further financial burden on Local Government throughout Queensland.

Libraries

Local Government outlays in real terms per capita have almost doubled over the period 1990 – 2000 as a result of increasing membership and the demand for an expanded range of services. State funding support for Council libraries has, however, only been maintained at the 1990/91 level in real terms per capita. In 1990/91 the State Library Grant represented 25.5% of total outlays on Council libraries compared to 15.4% of total Council outlays in 1999/00.

Integrated Planning Act

The introduction of the Integrated Planning Act in 1997 has increased Local Government's assessment and consultation workload in processing planning applications. The new legislation also requires Council's to prepare a new IPA Planning Scheme by March 2003. The additional workload and costs in preparing a new planning scheme that complies with the stringent new IPA guidelines is a significant additional cost burden to Queensland Councils.

Water Act 2000

The implementation of this new legislation again raises the reporting and administrative responsibilities for Local Government together with introducing substantial increases in bulk water charges and costs to Local Government in seeking future water allocations.

Security

Due to a shortage of police resources some Councils have had to engage the services of private security firms to supplement police patrols in order to ensure a service level that provides a satisfactory level of protection for community assets against vandalism.

Road Maintenance

The Queensland State Government is proposing that Local Government enter into a roads alliance with Queensland Main Roads Department to enhance the capacity for strategic cost effective decision-making. However in the absence of any additional roads funding from the State Government it is difficult not to see this proposal as another exercise in cost shifting to Local Government in the long term.

Queensland Building Code

The Queensland State Government recently devolved the responsibility for providing fire safety for budget accommodation to Local Government. This has significant cost implications to Local Government particularly for those Councils that have large tourist based economies.

Government Infrastructure

The failure of Government bodies to meet development requirements such as the provision of adequate parking both on and off site for facilities including Hospitals and Police Stations and the construction of bus set down areas for State Educational Facilities is a major cost shift to Local Government.

Refer **Attachment 2** for a summary of further examples of Cost Shifting.

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.

Response:

Local Government is recognised as the tier of Government that works at the local community 'coal face' and is therefore uniquely placed to provide a broad range of community services and respond to community need and feedback. As demonstrated in the responses to the fourth term of reference, Local Government has had to work under severe financial constraints in delivery of community services and there is clearly a need for a more equitable distribution of funding if Local Government is to continue to expand delivery of services and maintain service standards.

Federal Government funding programs such as 'Roads to Recovery', that provide direct funding to Councils or regional groups avoids duplication of administration and distribution costs and provides the opportunity for the allocation of funds to be made in response to community need.

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 inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

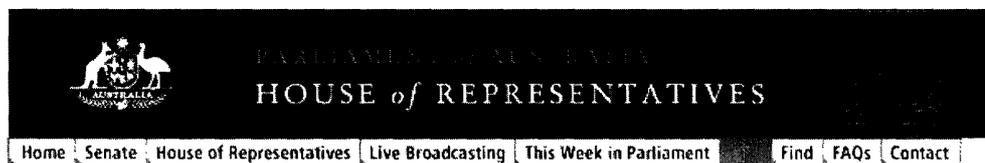
Response:

We believe the findings of the Commonwealth Grants Commission Review detailed in Chapter 5 'Changes in Local Government Finance Over Time' and 'Changes in Local Government Functions and Responsibilities Over Time' pages 36-42 (refer **Attachment 2**) are particularly relevant to your Inquiry. In summary the Commission acknowledges that:

"37 *Where the source of the financial pressure is the result of changing policies or actions of other spheres of government (the State or the Commonwealth), it would be appropriate for that sphere to acknowledge Local Government's need for greater financial assistance".*

Attachment 1

House of Representatives Standing Committee on Economics, Finance and Public Adn... Page 1 of 1



Standing Committee on Economics, Finance and Public Administration

Committee activities (inquiries and reports)

Inquiry into Local Government and Cost Shifting

On 18 June 2002 the Committee resolved to inquire into local government and cost shifting as referred by the Hon. Wilson Tuckey MP, Minister for Regional Services, Territories and Local Government.

The inquiry was advertised in all national papers on 8 June 2002. Closing date for submissions is Friday, 26 July 2002.

Please forward submissions to the Committee Secretariat by email or by post to:

The Secretary
House of Representatives Economics, Finance and Public Administration Committee
Parliament House
CANBERRA ACT 2601

Terms of reference

Submissions

Schedule of public hearings

Media releases

Related Sites

Commonwealth Grant Commission

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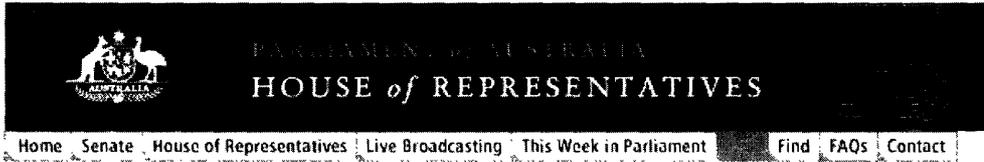
Comments to: Committee Secretary on PH: 02 6277 4587 or FAX: 02 6277 4774

or e-mail: EFPA.Reps@aph.gov.au

Last reviewed 18 June 2002 by the Committee Secretariat

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Standing Committee on Economics, Finance and Public Administration

Inquiry into Local Government and Cost Shifting

Terms of reference

The Minister for Regional Services, Territories and Local Government has asked the Committee to inquire into:

Cost shifting onto local government by state governments and the financial position of local government. This will include an examination of:

- 1. Local government's current roles and responsibilities.**
- 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.**
- 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.**
- 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.**
- 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.**
- 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 inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.**

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Comments to: Committee Secretary on PH: 02 6277 4587 or FAX: 02 6277 4774 or e-mail: EFPA.Reps@aph.gov.au

Last reviewed 18 June 2002 by the Committee Secretariat

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Attachment 2

SUMMARY OF FURTHER EXAMPLES OF COST SHIFTING

Direct Cost Shifting:

- (a) Use of Seeding Grants in Social Equity Area and other areas ie Youth Development Officer / Community Development Officer for 3 years - level of expectation is raised and then withdraw Grants subsidy.
- (b) Subsidy for Qualified Librarians.
No increase for book purchases subsidy in recent years.
Expanding role to community leisure centre in the electronic world.
Resource centre for materials only available on the Internet.
- (c) Complexity of Unemployment Programs, Supervision and Training requirements including Workplace Health & Safety.
- (d) Control of Vending on Main Roads.
- (e) Local cost and people impact of administering Enterprise Bargaining vs centralised wage fixing.
- (f) IDAS / IPA Reforms – coordinating response from all referral agencies ie MRD, EPA and DNRM.
- (g) Reduction in FAGs.
- (h) Corporate governance / asset management requirements.
- (i) Maintenance of fire hydrants.
- (j) Inspection of Budget Accommodation for fire safety compliance.
Inspection of Residential Tenancies for statutory compliance.
- (k) Withdrawal of State Government Offices / Resources in Regional Centres.
- (l) Childcare Centre Assessment – building works.
- (m) Collection of Fire Levies.
- (n) Lands Protection Act – more plants declared.
Requirement for Pest Management Plans.
- (o) Maintenance of Crown lands around townships because of local requests for a response.
- (p) Charges for GIS / Cadastral Mapping Services.

Indirect Cost Shifting:

- (a) Effect of new Legislation:
 - (i) Vegetation Management Legislation
 - (ii) NCP Reforms – Water Pricing
 - (iii) Disaster Mitigation Planning Requirements
 - (iv) EPA Legislation and delegations to Local Government ie noise control, water to be pumped from a creek, establishment of a new refuse tip, solid waste disposal.
 - (v) Advice to Public – ex IDAS re acid sulphate soils, dams, bores etc.
 - (vi) Queensland Heritage Act
 - (vii) Water Act (new legislation impact)
 - (viii) New restricted dogs legislation / implementation
- (b) Effect of Government Policies:
 - (i) CNRM – No longer grant USL for Council operational purposes – now charge for operational land for sewerage treatment works, refuse tips, libraries etc.
 - (ii) Retrofitting Traffic Management to schools including parking (partly subsidised)
 - (iii) (a) Counter Disaster – SES now assists Police with traffic control;
(b) Control and management of animal disease outbreak
 - (iv) Cost of participation in Voluntary Roads Alliances
 - (v) Native Title and Cultural Heritage
- (c) Trend to Corporatised Entities
 - (i) Water Licence Pricing (Sun Water)
 - (ii) Decline in attention to CSOs eg maintenance of Borumba Dam facilities
 - (iii) Electricity – no free scheme designs
- (d) Reduction in State Government Oversight -
 - (i) Timeliness in getting advice out of State Government Agencies
 - (ii) Oversight as exercised formally on water supply and sewerage functions now not available
- (e) Increased reliance on volunteer labour to provide levels of service ie Friends of Library and Friends of Art Gallery, School P&Cs, Adopt a Park etc
- (f) Council endeavouring to meet increasing requests for financial assistance from the community which we all recognise is hurting.

Attachment 3

Chapter 5

purposes. From this, we have inferred that the Commonwealth regards it as more important that local government services are funded rather than particular types of bodies are funded. We think it is appropriate that bodies that are providing local government-type services, but are not LGBs under State legislation, receive financial assistance grants. The current eligibility provisions provide for this and we do not think they need to be changed.

12. At present, the Commonwealth Minister can act to declare a LGB only at the request of a State Minister. We think either Minister should be able to initiate a proposal for a declaration but, ideally, both Ministers should have to agree to the declaration.

13. The current Act is not clear on whether an existing declaration can be revoked. We see no reason why the Commonwealth and State Ministers should not be able to agree to revoke an existing declaration.

CHANGES IN LOCAL GOVERNMENT FINANCE OVER TIME

14. The Commonwealth has been providing untied financial assistance to local government since 1974–75. Until the Territories achieved self-government, these grants did not cover the ACT or the Northern Territory. Grants for LGBs in the Northern Territory began in 1979–80 and a grant to the ACT for municipal purposes began in 1988–89. Local roads grants were added to the financial assistance grants in 1991–92¹.

15. The amount of financial assistance has grown from \$125 million in 1974–75² to over \$1.3 billion in 2000–01. The Commonwealth has always paid these grants through the States rather than directly to LGBs.

16. The terms of reference ask the Commission to examine and report on:

- the impact of the Act on the raising of revenue by local governing bodies and on the assistance provided by the States to local governing bodies; and
- the implications of any changes in the functions or responsibilities of local governing bodies.

17. To understand whether Commonwealth assistance has had any impact on local government revenue raising and expenditure patterns, or on State assistance, we undertook an analysis of expenditure data for the period 1961–62 to 1997–98 and revenue data for the period 1974–75 to 1997–98³. For the final report, we intend to start the revenue

¹ The Commonwealth previously paid these as tied grants to the States under the *Australian Land Transport Development Act 1988*.

² \$69 million of this was paid to the States as tied grants for local roads.

³ The analysis is based on unpublished Government Finance Statistics (GFS) data compiled by the Australian Bureau of Statistics (ABS). In such a long time series there may have been changes to ABS classifications and coding. However, we are not aware of any such changes and have made no adjustments. Data for 1998–99 are not included because they are prepared on an accrual basis and are not comparable with earlier years' data. The data have been converted to constant prices using an ABS Gross Domestic Product price deflator.

analysis from 1961-62⁴. The data relate to mainstream councils and, in 1997-98, Community Government councils in the Northern Territory.

Local Government Revenue

18. A number of participants at our consultations, particularly LGBs, said that:

- local government is increasingly being 'drawn into' new areas of service provision, often without access to additional funding;
- Commonwealth and State assistance has not been sufficient to enable local government to finance its expanding services; and
- local government has responded by increasing rates and user charges, contracting work out, generating greater efficiencies, cutting back on non-essential services, spending less on roads and increasing borrowings.

19. Figure 5-1 shows the contribution — in percentage terms — of the different sources of revenue available to local government at the national level.

20. *Own-source revenue.* Figure 5-1 shows that the importance of local government's own relative revenue raising effort (municipal rates plus user charges and other revenue) has increased marginally. It has moved from 75 per cent of total revenue in 1974-75 to 81 per cent in 1997-98. Although reduced in importance, municipal rates remain local government's primary revenue source. For a number of reasons, user charges have become an increasingly important source of revenue, and rates have reduced in relative importance. The growth in User Charges is not related to the introduction of financial assistance grants.

21. We have concluded that the introduction of the Commonwealth's financial assistance grants has had little impact on local government revenue raising efforts at the national level⁵.

22. The outcome at the State level is less clear. In Volume 2, we provide a series of charts showing local government revenue by source for each State. These show that in New South Wales and South Australia, own-source revenue is at about the same proportion now as it was before the introduction of the untied Commonwealth assistance. For Victoria⁶ and Tasmania, the proportion of own-source revenue appears to have declined

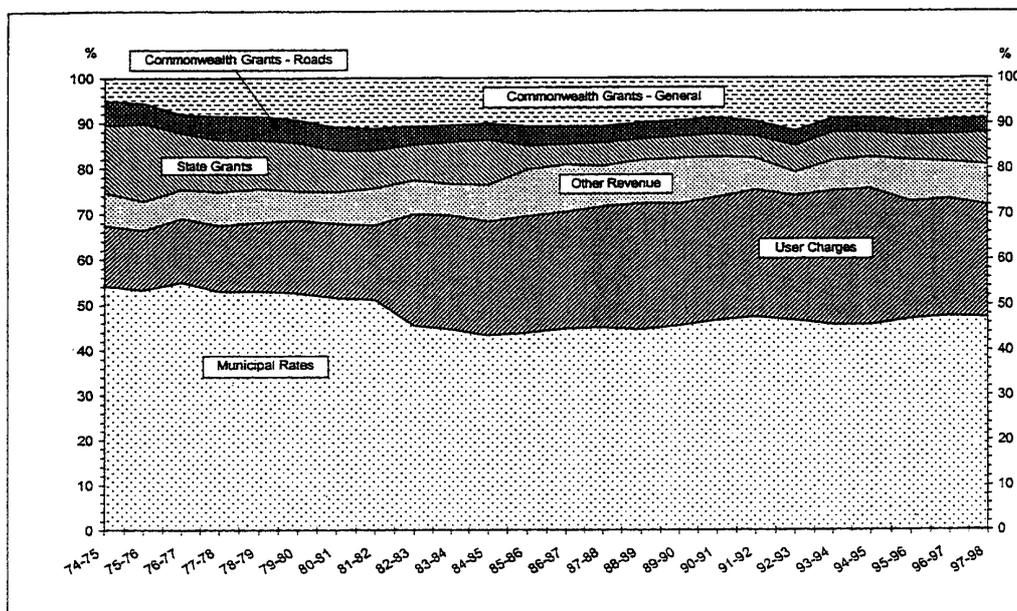
⁴ We have not yet been able to separate Local Roads funding from State assistance for the period 1961-62 to 1973-74.

⁵ We think that the approach we have used is appropriate given the terms of reference, but there are other ways we could have examined this issue. For instance, we could have assessed whether the growth of local government own-source revenue had increased in line with that of the States and the Commonwealth; or, we could have checked whether local government own-source revenue had increased in real terms. These measures are discussed in Volume 2.

⁶ The Victorian outcome is due in part to a legislated 20 per cent reduction in the level of rates in 1995-96.

while for Queensland, Western Australia and the Northern Territory, it appears to have increased.

Figure 5-1 LOCAL GOVERNMENT REVENUE SOURCES, 1974-75 TO 1997-98



Source: Unpublished ABS Government Finance Statistics data.

- (a) State Grants include all Commonwealth payments through the States to Local Government except for the local government financial assistance grants and local road grants.
- (b) Commonwealth Grants include local government financial assistance grants and specific purpose payments paid directly to local government.

23. **State assistance.** Since the introduction of untied financial assistance grants, transfers from the Commonwealth and States to local government have varied between 25 per cent of local government revenue in 1974-75 and about 18 per cent in the 1990s. The share of revenue coming from Commonwealth grants has varied between 16 per cent in the early 1980s and 12 per cent in the late 1990s.

24. Although it has increased in real terms, State assistance to local government has declined in relative importance since 1974-75. State assistance over the period has increased at a slower rate than local government own-source revenue (0.4 per cent per annum compared to 4 per cent in real terms, respectively).

25. The analyses in Volume 2 show a broadly similar outcome for State assistance for all States except Tasmania. It suggests that the importance of State assistance in Tasmania is greater now than in 1974-75.

CHANGES IN LOCAL GOVERNMENT FUNCTIONS AND RESPONSIBILITIES OVER TIME

26. Many of the LGBs we consulted said that local government's functions and responsibilities have increased. These changes were said to have resulted from:

- (i) *devolution* — where another sphere of government gives local government responsibility for new functions⁷;
- (ii) *'raising the bar'* — where another sphere of government, through legislative or other changes, increases the complexity of or standard at which a local government service must be provided, and hence increases its cost;
- (iii) *cost shifting* — where there were two types of behaviour. The first is where local government agrees to provide a service on behalf of another sphere of government but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand for the service. The second is where, for whatever reason, another sphere of government ceased to provide a service and local government steps in⁸; and
- (iv) *increased community expectations* — where the community demands improvements in existing local government services.

27. LGB representatives claimed that changes in the responsibilities of local government have been occurring at an increasing rate. They were concerned that these increasing responsibilities, devolved by the State and (to a lesser extent) the Commonwealth, were not being matched by an increase in funding or in appropriate access to additional revenue. Local government has responded by placing more reliance on user charges (a trend evident in our earlier revenue analysis), reducing expenditure in discretionary areas (roads and administration) and by increased borrowings. Even where local government is able to introduce a user charge, there are often differences in the capacity of individual LGBs to raise revenue from this source.

28. Our analysis of local government expenditure over the period 1961–62 to 1997–98 provides support for many of these claims. Again, more details can be found in Volume 2.

29. Figure 5-2 shows the changes in the composition of local government expenditure over the period of our analysis. There have been substantial changes. Some of the bigger ones have been:

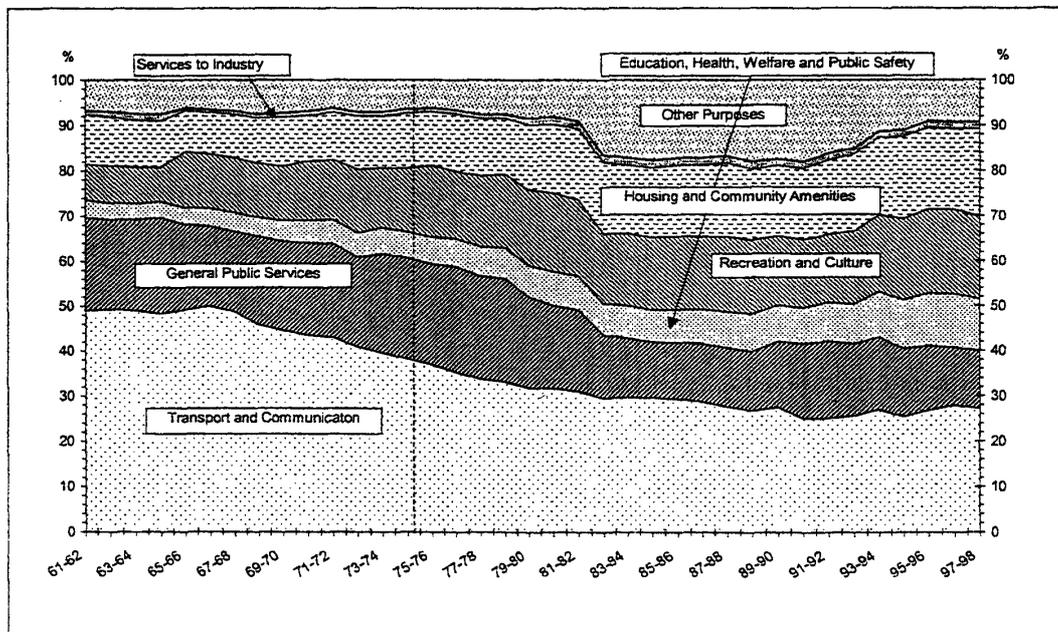
- (i) a move away from property-based services to human services;

⁷ Functions can be taken away, but this has not been the trend.

⁸ This is not limited to public services, local government is also stepping in to provide private services such as banking facilities.

- (ii) a decline in the relative importance of roads expenditure⁹ (although it remains the largest function, its level of importance has declined from about half of total expenditure in the 1960s to a little more than a quarter in the 1990s);
- (iii) an increase in the relative importance of Recreation and Culture, and Housing and Community Amenities (these are now large areas of local government expenditure, each approaching 20 per cent of total); and
- (iv) an expansion of Education, Health, Welfare and Public Safety services (this has increased from 4 per cent of total expenditure in 1961–62 to about 12 per cent in 1997–98).

Figure 5-2 COMPOSITION OF LOCAL GOVERNMENT EXPENDITURE, 1961–62 TO 1997–98



Source: Unpublished ABS Government Finance Statistics data.

30. Our analysis shows that, at the national level:
- the composition of services being provided by local government has changed markedly over the last 30–35 years; and

⁹ LGBs appear to have deferred road expenditure rather than reduce human services.

- local government is increasingly providing human services (social welfare type services) at the expense of its traditional property-based services (particularly roads).
31. Our analyses in Volume 2 suggests there are broadly similar findings for each State.

Implications

32. The terms of reference ask us to examine the implications of any changes in the functions or responsibilities of LGBs.

33. Compared with the situation before 1974–75, we have seen that:

- following the initial impact of the injection of Commonwealth funds, local government has maintained the share of revenue it derives from its own-sources;
- the share of local government revenue coming from the Commonwealth has increased;
- the share of revenue coming from State grants has declined; and
- local government responsibilities have broadened.

34. Local government organisations have argued that, to meet its new responsibilities, they need increased revenue from the Commonwealth in the form of financial assistance grants. They have said that, unless this is achieved, there will be a continuing deterioration in local government services, particularly in infrastructure and the local road network¹⁰.

35. The financial pressures being faced by LGBs are not due to a single influence. It is therefore unlikely that a single response would be reasonable or appropriate.

36. Where the source of the financial pressure is a result of the discretionary actions of the LGB itself (because LGBs have chosen to respond to particular needs of their residents), it would be appropriate for LGBs to meet these pressures from their own revenue sources.

37. Where the source of the financial pressure is the result of changing policies or actions of other spheres of government (the State or the Commonwealth), it would be appropriate for that sphere to acknowledge local government's need for greater financial assistance.

¹⁰ Recognising the need to improve local road condition, the Commonwealth recently announced the provision of \$1.2 billion over four years in tied grants for local government over four years under the *Roads to Recovery* Program.

38. LGBs in different circumstances will be subject to different financial pressures. For example, not every LGB has the same capacity to raise user charges. Giving LGBs an increased power to levy user charges does not mean they all have the same increase in capacity to provide additional services. Devolving functions to LGBs that are already highly dependent on grants risks their financial viability and there may be an argument for providing additional grants if they have low revenue capacities.

ANNOUNCING GRANT ALLOCATIONS AND DETERMINING GRANT POOL ADJUSTMENTS

39. Local government planning and budgeting requirements mean LGBs begin to prepare their budgets for the coming financial year as early as February. However, they do not receive notification of their grant allocation until August. Many participants said that this creates considerable difficulties, particularly if their grant is less than they expected and they need to adjust allocations within an already approved budget.

40. It is not possible to announce grant allocations before the Commonwealth brings down its Budget in May. However, it should be possible to announce final allocations to each LGB very shortly after that time. To do so would require:

- (i) final grant allocations to be determined using the level of funding announced in the Commonwealth budget;
- (ii) LGGCs to have their grant recommendations completed before May (based on the previous year's national pool); and
- (iii) a quicker approval process — the process by which the Commonwealth approves the LGGC recommendations.

41. The current arrangements are confusing for LGBs. The national grants pool is initially estimated based on expected increases in CPI and population. Grants are then allocated to LGBs based on the estimated size of the pool. In the following financial year, adjustments are made to the grants paid to LGBs in the previous year because actual increases in CPI and population in the previous year are different from those that were estimated.

42. Under our proposal, the final grant distribution to the States would be based on the estimates of CPI and population available at the time of the Commonwealth budget. This would allow the level of funding for each State to be announced in that budget. We propose that there be no adjustment in the following year for changes in these estimates. We think this proposal will greatly simplify the process.

43. It is possible for LGGCs to complete their grant recommendations before May. Some of them already do. Once the level of funding for the State is known, they could then finalise each LGB's grant allocation very quickly.

44. The process of approving distribution methods could begin prior to May. The new grant allocations do not need to be known to complete this process. The impact of the new recommendations could be assessed by applying them to the previous year's level of funding. Provided the information is in a form that allows the Commonwealth Minister to ensure the new assessments will distribute all the funds, the approval process could be completed prior to May. If approved, the new recommendations would then be applied to the current year's level of funding.

45. These changes may involve some compromises (for example, LGGCs may have to use older data) but there would be substantial benefits in terms to LGBs' budgetary processes. We think the Commonwealth, in consultation with the States and local government, should develop improved arrangements along the lines suggested.

