



Local Government  
Association  
of Queensland Inc.

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

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**INQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING  
DISCUSSION PAPER – FEBRUARY 2003  
House of Representatives  
Standing Committee on Economics, Finance and Public Administration**

**Background**

The Cost Shifting Inquiry has recently released a Discussion Paper identifying key issues and suggesting a number of possible options. The purpose of the Discussion Paper is to focus comment and input on key issues and solutions. This paper summarises the options presented by the Inquiry, and provides an initial LGAQ position. It is based on established LGAQ policy and positions previously developed following consultation with member councils on related topics.

The paper is intended to assist Queensland Councils in their responses to the Inquiry Discussion Paper, and possible participation in the Public Hearings to be conducted in Queensland on 11, 12, 13 March 2003 - (Noosa, Longreach & Townsville).

**Review of Discussion Paper Options**

Each of the following options are set out in Chapter 4 of the Discussion Paper.

**Option 1a**

*Negotiate an umbrella intergovernment agreement on FAGs incorporating some or all of the following elements:*

- *a clear statement of the Commonwealth's policy intent*
- *adjustment of the escalation factor to match increases in GST revenue or GDP*
- *changes to the interstate distribution to redress apparent anomalies*
- *reduction of the minimum grant to direct additional funds to needy councils*
- *making grants conditional on an adequate revenue effort, the continued viability of recipient councils, and effective arrangements to secure efficiencies through regional cooperation and resource sharing (including merging councils where appropriate)*
- *removal of unwarranted State restrictions on local government revenue and substantial reductions in cost shifting*
- *reporting on expenditure*

**LGAQ Comment:**

LGAQ supports the concept of an intergovernmental agreement on FAGs that:

- Provides a clear statement of the policy intent of the Commonwealth;

- Provides an escalation factor linked to increases in GST (with a per capita real terms minimum increase);
- Addresses the current anomalies in the interstate distribution of funds, particularly in the general revenue grant;
- Removes any unwarranted State restrictions on local government revenue (not a specific Queensland problem),
- Provides for effective reporting on expenditure, assuming that this does not impose additional burden on existing Statutory Local Government reporting requirements.

LGAQ has long held the view that the current interstate distribution of FAGs is inequitable and should be based on horizontal fiscal equalisation principles.

LGAQ does not support a reduction in the current minimum grant entitlement (30% on a per capita basis minimum) as there remains a fundamental issue of vertical fiscal imbalance.

While not opposed to the need for adequate revenue effort by individual Councils, LGAQ would need to see any proposed approach to ensure that such conditions could be equitably implemented.

LGAQ does not support the use of FAG to implement efficiency and effectiveness measures within Local Government, as such an approach would be inconsistent with the current method of providing FAGs to each State for State purposes.

**Option 1b**

*Treat FAGs simply as a tax transfer with a simplified distribution system and formula, administered nationally.*

**LGAQ Comment:**

LGAQ does not support a centralised system of FAG distribution. An effective State based Local Government Grants Commission should be able to better identify expenditure needs and revenue capacity, and provide an equitable distribution of funds.

**Option 1c**

*Deliver FAGs through a model of broad-banded program grants to facilitate local government's role in key national initiatives such as regional development, transport, environment etc.*

**LGAQ Comment:**

LGAQ does not support the elimination of FAG based on a system of horizontal fiscal equalization. The retention of a system to provide such general revenue support is essential. If the Commonwealth seeks to facilitate Local Government involvement in other national initiatives then specific additional program funding should be provided.

**Option 1d**

*FAGs to be delivered as tied grants.*

**LGAQ Comment:**

As above. LGAQ would strongly oppose such a change.

**Option 1e**

*Consider other horizontal equalisation formulas for local government funding such as the SES formula used by DEST for funding the non-government school sector.*

**LGAQ Comment:**

Local Government Grants Commissions, in their methodology reviews, look at all options in developing equalisation methodology. The SES index has not been shown to be effective in determining expenditure and revenue disabilities or capacities.

**Option 1f**

*Deliver FAGs through the Roads to Recovery model.*

**LGAQ Comment:**

As noted above, LGAQ considers there should be a State based Local Government Grants Commission. This does not necessarily imply a need for this to be a State Government body. There may be other approaches that could be used to develop a more direct relationship between the Commonwealth and Local Government on funding distribution.

**Option 2**

*Include local government in negotiations for the next Commonwealth-State financial agreement and specifically consider:*

- the ongoing financial viability of local government in relation to its roles and responsibilities, and the need and scope for increased Federal and State support*
- the need to reduce cost shifting and revenue restrictions imposed on local government (unless already addressed under Option 1).*

**LGAQ Comment:**

LGAQ supports involvement of Local Government in negotiations of Commonwealth-State financial agreements to address issues of the adequacy of Federal and State funding support, and to reduce cost shifting and revenue raising impediments for Local Government.

**Option 3**

*Through the Local Government and Planning Ministers Council:*

- *investigate the principal factors that impinge on the adequacy and effective utilisation of local government's own revenue base*
- *disseminate best practice in council revenue-raising, and recognise the efforts of those councils demonstrating a responsible and innovative approach to maximizing revenue consistent with expenditure needs and community capacity-to-pay*
- *examine the ongoing viability of smaller rural councils and possible need for alternative models of local government in some areas.*

**LGAQ Comment:**

LGAQ supports the need to assist Councils in developing effective revenue raising policies and approaches. LGAQ provided support to one rural Council in Queensland faced with particular difficulties in developing an effective differential rating mechanism. This support assisted the Council in increasing its revenue base by some 30%. Other Councils are now considering the application of this mechanism. However, such support must be focused on the particular circumstances and legislative arrangements within each State.

While LGAQ recognises the pressure on some Councils is impacting on their viability in the long term, LGAQ considers that structural change, including amalgamations or resource sharing, will only be successful if developed, and agreed to, at the local level. The availability of funding to investigate and support the implementation of such arrangements would be an incentive to encourage greater consideration of options to enhance efficiency and effectiveness of local governance arrangements.

**Option 4**

*Conduct a national study into local infrastructure needs and funding in order to:*

- *fill the gaps in current knowledge and reach a national consensus on the magnitude of the problem*
- *consider a wide range of funding options including local infrastructure levies and increased but cautious use of borrowing.*

**LGAQ Comment:**

LGAQ recognises that infrastructure needs and funding is a critical issue for Local Government. In 2002, the LGAQ undertook an Inquiry on Roads and Transport Funding (copy provided to Inquiry). This Inquiry identified a significant road and transport funding gap, and identified a range of mechanisms to effectively fund roads and transport across Queensland. The cautious use of increased borrowing, along with use of impact fees on development were both recommendations from this Inquiry.

**Option 5**

*Maintain Roads to Recovery into the longer term, either in its current form or as a component of AusLink.*

**LGAQ Comment:**

LGAQ strongly supports retention of a program of the nature of Roads to Recovery in the long term. The LGAQ Roads and Transport Funding Inquiry recommended the Commonwealth allocate some 20% of fuel taxes to roads and public transport initiatives, which would readily fund the continuation of the Roads to Recovery Program.

**Option 6**

*As a general rule, ensure that Commonwealth-funded programs involving local government and a regional planning or delivery mechanism make use of established regional organisations of councils (or equivalent) rather than establish parallel bodies, provided the ROCs have demonstrated capacity.*

**LGAQ Comment:**

LGAQ strongly supports use of established regional arrangements involving Local Government for delivery of Commonwealth-funded programs and initiatives rather than establishing parallel bodies. Comment on this issue was included in the LGAQ submission to the Cost Shifting Inquiry.

**Option 7**

*Through the Local Government and Planning Ministers Council:*

- negotiate an intergovernment agreement on principles and procedures for the future transfer of functions and financial obligations from the Commonwealth and/or States to local government, as well as the imposition of new functions*
- regularly review and disseminate best practice in State-local government relations, particularly in relation to cooperative planning and service delivery.*

**LGAQ Comment:**

LGAQ supports the concept of an intergovernmental agreement on principles for transfer of functions and financial obligations from other spheres of government to Local Government. Ensuring that information is disseminated on best practice arrangements for cooperative planning and service delivery is an appropriate role for a National Office of Local Government.

**Option 8**

*Ensure that local government is a party to negotiations and a signatory to all SPP agreements covering functional areas in which it has significant responsibilities, using the AusLink approach as a model.*

**LGAQ Comment:**

LGAQ supports the involvement of Local Government in such agreements.

**Option 9**

*Use a 'top slice' of FAGs (perhaps 0.5%) to fund a national capacity building agency along the lines of UK Improvement and Development Agency (IDeA).*

*– Give the capacity building agency responsibility for accrediting councils and regional organisations of councils wishing to become agents for the delivery of Commonwealth programs.*

**LGAQ Comment:**

LGAQ does not support establishment of a national capacity building agency. Because Local Government differs from State to State, arrangements for capacity building must be developed on a State by State basis. A "top slice" of current funding should not be used for this purpose. If the Commonwealth sees merit in such arrangements, additional funding should be provided. The re-introduction of a program similar to the previous Local Government Improvement Program could be a means to support capacity building within Local Government.

LGAQ accepts that the Commonwealth may wish to establish particular accreditation arrangements for organisations wishing to become agents for delivery of Commonwealth programs.