
P16 FEDERAL ENQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING

98.2476

SYNOPSIS

Presenting draft submission for the federal enquiry into local government and cost shifting announced by the House of Representatives Economic Committee.

BACKGROUND

The House of Representatives Economics Committee is to examine the issue of cost-shifting onto local government, and the financial position of local government in Australia.

The inquiry has been initiated in response to concerns that local government is increasingly having to provide a range of services to communities, such as health centres, aged care facilities, employment programs and security guards, without being provided financial resources to do so.

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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The House Economics Committee membership includes our Federal Member Gary Nairn who will discuss the enquiry at the Environment Planning & Administrative Services Committee meeting.

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ISSUES

The Enquiry's focus tends to be on the movement of grants between federal to state to local governments and the potential to directly grant local government for services or programs that are constitutionally viable.

The attachments indicate the type and value of commonwealth payments to states, compared to the value of financial assistance grants passed on from the states to local government.

The table is claimed to indicate total Commonwealth funding paid to the states amounted to around \$46.7 billion in 2001-2002. This included payments for services such as health care, schools, housing, roads and home and community care. By comparison, Local Government received only \$1.4 billion in financial assistance grants (FAG).

The recent review by the Commonwealth Grants Commission (CGC) of the *Local Government (Financial assistance) Act 1995* found that since the introduction of the untied financial assistance in 1974, Commonwealth grants assistance has grown by around 10.8 percent per annum on average whereas the States' FAG contribution to local government have only grown by around 6.6% on average.

The Federal Minister believes there is a general need to address the roles and responsibilities of Local Government, including the current funding and other financial arrangements applying to the sector. There is considerable potential for Local Government to play a greater role in the provision of services direct to their communities and to receive due financial recognition for so going.

Environmental

The state Grants Commissioner recently met with ACT Regional Leaders Forum Environment Committee members to discuss the impacts of statutory reporting on local government particularly in regard to State of the Environment Reporting. A submission was made to the Grants Commission suggesting the review of structures and data protocols to reduce the time, effort and expense of local government in seeking, collecting and presenting information required by statute or state and federal agencies, including grants commission and ABS.

The NSW Local Government Act requires councils to report separately on the condition of the natural, built and social environments through the State of the Environment Report (SoER), Condition of Public Works Report (CoPW) and the Social Plan (SP).

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That requirement places NSW local governments at an advanced standing to state agencies and other state local governments in terms of reviewing and managing the changing condition and serviceability of the natural and built environments.

However there is a cost in collecting, analysing and presenting environment, social and asset information in a form that not only is useful for sustainable decision-making, but is often at odds with the reporting or survey requirements sought by state and federal governments.

Moreover, state and federal agencies charge local governments for that information (especially cadastre) or provide it in an inconsistent form that requires significant adjustment, yet readily uses that information processed by local government for their agency or government reporting.

The annual cost of acquisition and modification of cadastre and other agency data sets is around 1% of the general rate levy (\$90,000).

It is suggested that a streamlining of data and reporting requirements of natural, built and social environment be undertaken to minimise the cost to all governments of collecting and reporting often the same information for differing fora. In many ways, the information and indicators should be structured in a manner to recognise (and compensate through financial assistance) the cost of collecting and reporting, and to allow the aggregation of reporting by local government, region (or catchment), state then federal government for national or OECD purposes (eg State of the Environment Report and ABS surveys).

Further information collected, processed and presented should be available to all governments at no cost in a form capable of use without the expense of further modification. This should include provision of free survey cadastre, satellite and aerial data, and environment and social spatially analysed data.

In addition, state legislation and agency requirements for preparation of plans of management for community land, estuaries and wetlands, while having scientific and community merit, applies a cost to local government to administer committees, coordinate studies, prepare strategies and undertake works on what are fundamentally state assets. Partial grant funding is acknowledged.

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Asset

The annualised cost for SoER, CoPW and social plan assessments and reporting is over 1% of the general rate levy (\$120,000). A larger cost of \$150,000 applies to preparation and management of plans of management and associated works.

Most of any local government's built infrastructure and facilities was built, or funded, by other governments. The maintenance of serviceability of those assets is required of local government. Recently the responsibility for regional roads has passed from state to local government. The 'liability' and risks created by that infrastructure is now at the forefront of local government concern with recent court decisions on non-feasance.

The federal government went some way towards ameliorating this concept with the Roads to Recovery program. It is important the critical recognition of the economic, social and environmental value of roads to local and regional economies as an asset remains a feature in funding decisions – and the R2R program of direct funding to local government remain.

Since the introduction of AAS27 (including the accounting of assets by governments), the gap in capacity of local government to fund the rehabilitation of infrastructure is apparent. Direct or indirect state or federal funding for infrastructure does not accommodate the 'life-cycle' components of asset maintenance. The public liability and non-feasance 'risk' and subsequent cost to local government is growing at a rate greater than its existing fund raising capacity through rating, development contributions and user charges.

The annual cost of risk assessment and non-feasance related maintenance brought on by inadequate legislative protection, inadequate direct granting for rehabilitation of infrastructure and rate-pegging restrictions accounts for 2% of the rate levy.

The Ecologically Sustainable Development principles of intergenerational equity - that present generations should ensure that the health, integrity, ecological diversity, and productivity of the environment is at least maintained or preferably enhanced for the benefit of future generations; and the principle of improving the valuation and pricing of social and ecological resources - the users of goods and services should pay prices based on the full life cycle costs (including the use of natural resources at their replacement value, the ultimate disposal of any wastes and the repair of any consequent damage) – has not been recognised by governments in grant funding or other forms of assistance.

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Current rating and user-pay regimes are not flexible or available under existing legislation. Hence local governments are reliant on financial assistance from federal and state government, in recognition of the legacy passed to local government when infrastructure was developed by those governments, to adequately reflect life-cycle costs of asset management that are outside the legislative or equitable capacity of local government.

Council understood through recent enquiries into airports management that subsidies would be provided to local governments to maintain key airport infrastructure such as runways. While arguably a federal concern, when combined with council's costs to provide and maintain emergency services headquarters, the annualised cost of airports infrastructure maintenance and emergency/safety support is over \$100,000.

Social Impact

Many services have been passed from state to local governments without adequate or indexed compensation. While several community services (see attached) delivered by council are directly or partially funded through federal or state agencies, these services historically or constitutionally (arguably) are in the domain of state government.

Without this council's intercession, many of these community services would not have been delivered to the Shire community, while the government readily acknowledges the demographic shifts (and pressures) effecting coastal councils that demand these services. To Eurobodalla Shire Council, the provision of those existing services requires an investment by ratepayers of \$300,000 (or 3% of the general rate levy) per annum.

Both the Federal and State governments provide funds for aged care and carer's respite and this is an area of overlap. However the Federal funds, which have a more recent history, have been very welcome. The administration of the Federal funds is more straightforward than the State funding which has attached to it a growing number of regional field staff undertaking a range of planning and monitoring activities with the programs. It is thought that this planning and monitoring is having little affect on quality of some programs and is eating into the available funds.

Both Federal and State government provide funds in the child care area. The Federal sphere is much better equipped to do this, particular as it also provides childcare assistance payments for families.

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Throughout the community services sector there have been many reviews of efficiency and effectiveness. They all point to a huge, fragmented, uneven service delivery industry, mostly wedded to its annual funding with few opportunities to run as a business. When there is a problem with funding, such as the recent 12% increase in an industrial award for care workers, the industry cannot absorb the change and service suffers and fails.

Having both Federal and State funds involved, increases the fragmentation and paperwork.

At the core of some of the troubles are the historic Federal and State Agreements that underpin much of the funding. For example the Home and Community Care funding comes 60% from Federal funds and 40% from State funds and is channeled to the State Government for distribution and management – a huge industry for public servants one might suspect. Every few years a new agreement is struck – another tense time of gamesmanship and wasted resources.

Direct Federal funding of community services has benefits in reducing waste. The State should be involved in other areas of funding.

Conversely there are a range of services that would be better delivered by local government (if funded) than other governments.

Local Government is well-placed to administer grants and manage many type of community services. This level of government is working closely with its community, knows its needs and involves local people in the management as well as the delivery of services. The barrier for local government is that the grants slowly diminish as costs rise and the ratepayers can end up supplementing the government grants. If grants were structured fairly, more local governments might want to auspice community services programs.

In particular, the types of services that Local Government should run involve:

- services for young families and children because of the close connection Local Government can foster with schools and pre-schools
- services run by volunteers as Council usually has personnel services that can provide advice and support to the modern management of volunteers

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- services with high paid labour content, such as group homes,
- home-based services with complex care of people with a disability, and high need aged care into the home – once again because Councils can provide well-managed labour based on strong awards and personnel services that will help ensure there vulnerable people are given quality care
- activities for young people that are of a recreational nature – these link well as a carry over from the children’s services.

Councils are not well equipped to run programs to support people and family with long term welfare issues, or high incidence of violence, mental illness or crime. These programs need to be run from fairly large organisations, such as government departments, where there is a considerable body of experts and back-up for staff involved in difficult case work.

Strategic

Eurobodalla Shire Council believes its role is to understand the inter-relationships between the Natural, Built and Social Environments, assessing the relative merits and impacts of the proposals we receive, as private or public investment, to achieve the sustainable balance espoused in our Strategic Objectives. As policy, council’s current approach is using science (natural resource, land economic and demographic studies) to underpin council strategies, then prioritise actions through the Management Plan

Assisted by grants we arrange studies of environmental and human impacts, to underpin our head strategies.

Each year, we examine and determine priorities for works and funding to replace, improve or expand the infrastructure network, or the condition & serviceability of those assets. Prior to design, a Review of Environmental Factors (REF) is prepared. It is considered that the requirements to prepare studies prior to strategies and plans of management, or REF’s or safe work method statements required of legislation prior to works, is a cost hidden to the ratepayer that has been transferred by legislation.

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It would also make some sense to cause an alignment of federal and state agency regional boundaries to coincide with local government boundaries. On the basis that consistent policy, data exchange and granting protocols apply in agencies occupying the same region, local government would benefit from a whole of government approach to planning and decision making specific to the region their local government occupies.

That approach has been taken by the alignment of 17 local governments with the ACT government into the Regional Leaders Forum. That group arranges joint studies, projects and lobbying in SoER, telecommunications, business development and information technology to share expertise, technology and costs amongst councils of differing size. The regional approach to SoER has saved potentially \$20,000 per year.

Staff

Federal and state governments often fund the equivalent of a position to administer a grant (driven by that government's policy or election imperative) that is aimed at raising community awareness or altering consumer behaviour (eg NHT, recycling or litter program). However when grant funds expire, community expectations are raised to the point that council is pressured to retain that role at the community's expense. Recent examples in landcare and related programs have increased council's costs by \$40,000.

Financial

The full value of National Competition Policy tranche payments have not been made to state government and in so doing, the benefit of additional grants to local government not passed on. Similarly, in terms of review of fiscal equalisation, each state in receiving its share of GST receipts from the federal government should pass on a percentage to local government. It is suggested that percentage could be legislated and become a progressive rather than a regressive tax.

Further, the water reform programs at state and federal level will ultimately extend a cost to local government. Should the government's long-term view be to charge all bulk users of water (including councils) for supplies drawn from ground or surface or stored water, it is considered an option to incorporate a levy to deliver on-the-ground rehabilitation works to the catchment, source and receiving waters at catchment board or local government level. Without siphoning of administrative fees from that levy by other governments, the levy could be recovered by water authority consumption user charges, to finance works targeted through government funded research. This will include landcare, creekcure and bushcare volunteer and indigenous works.

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The NSW state government is understood to be the only government that does not fully reimburse the value of rate pension rebates. That state subsidy currently represents just 55% of the rebate, annually costing \$450,000 (or 4.5% of the rate levy. We forecast that given the migration into the Shire and the growth in the 55+ and unemployment cohorts, that the rate rebate cost to council will double by 2010 (ie \$900,000).

No doubt the enquiry will also receive commentary on the effect of rate pegging on the capacity of local government to finance projects.

CONCLUSION

Council shares the Federal Government's concern with the shift of responsibility of services and programs from federal and state governments to local government. Clearly the 'compensation' for that responsibility has not been commensurate with the savings then enjoyed by those governments or indexed to the full value of financial assistance grants paid by the federal government.

It is understood that by virtue of the constitution, where local government is not recognised and has no formal responsibilities in service or infrastructure provision, that it remains at the behest of the state government in determining which of its constitutional services it wishes to 'delegate' to local government as an 'agency' of state government.

Once accrual accounting is rigidly applied to federal and state accounts (as it is with local government), then the true and life-cycle cost of those services and infrastructure can be identified and suitably funded. Funding can be either by direct granting by federal or state government, by equitable subsidisation of those services or by lifting the cap on local government' capacity to raise its own revenues with consultation with its local community.

The extent of consultation and strategic planning required by legislation, and taken up positively by local government (eg SoER, CoPW and social plan), indicates the capacity of local government to target and prioritise services and works responsibly and efficiently without loss of value by administration of grants by other governments.

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The Federal Government's own enquiries appear to suggest that direct funding of local government projects and programs in the manner espoused in the R2R and bicentennial programs, afforded greater efficiency and targeted projects critical to local communities. There were suggestions the full value of federal grants for local government have not been passed on. Perhaps a federal criterion for distribution of financial assistance grants to local government rather than administered through state grants commissions may be more efficient.

Financial assistance, grants administration and accounting should be designed to reflect the principles of Ecologically Sustainable Development in terms of transparency, valuing the social and environment cost in decision making and considering the life-cycle costs of infrastructure and positions funded by grants.

The local Federal Member may assist councillors discussion on this report.

RECOMMENDED

THAT the report on 'Federal Enquiry into Local Government and Cost Shifting' as submitted to the Environment, Planning and Administrative Services Committee Meeting held on 16 July 2002 form the submission to the House of Representatives Economic Committee.

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